SONY

The Digital Dream Kids concept is a symbol of Sony's mission to harness the vast potential of digital technologies to create new varieties of fun and satisfaction for the digital age.

ANNUAL REPORT 1996

Year Ended March 31, 1996

PROFILE

In May 1946, Sony Corporation was established as Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering Corporation). Since its founding, Sony has developed many innovative products. One of the world's foremost companies in the consumer and industrial electronics and entertainment business areas, Sony also maintains a leading position in the development of new technologies, as evidenced by its rapid progress in digitization. Sony is aggressively expanding its operations outside Japan, developing and manufacturing products and providing customer services in the markets where its products are sold.

As a good corporate citizen, Sony actively contributes to each community in which it conducts business. At the same time, Sony recognizes the importance of protecting the global environment and strives to carry out its worldwide operations in an environmentally sound manner.

In May 1996, Sony celebrated the 50th anniversary of its founding. While recognizing the importance of this milestone, Sony will continue to respond to changing market needs and create new demand by introducing innovative hardware and software products that bring new varieties of enjoyment into the lives of successive generations of customers.

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Statements made in this annual report with respect to Sony's plans, strategies, and beliefs as well as other statements that are not historical facts are forward-looking statements, which involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions in Sony's markets, exchange rates, and Sony's ability to continue to win acceptance of its products, which are offered in highly competitive markets characterized by continual new product introductions, rapid developments in technology, and subjective and changing consumer preferences.

FINANCIAL HIGHLIGHTS

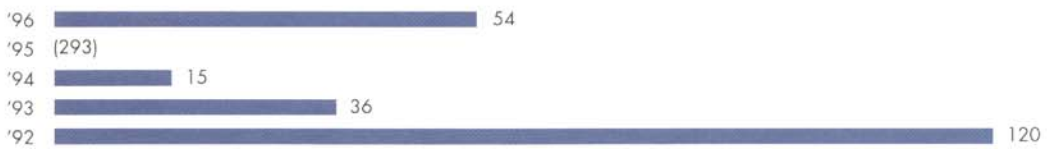
Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts		Percent change	Dollars in thousands except per share amounts (Note 1)
	1995	**1996**	1996/1995	**1996**
OPERATING RESULTS				
FOR THE YEAR				
Sales and operating revenue	¥3,990,583	**¥4,592,565**	+15.1%	**$43,326,085**
Operating income (loss)	(166,640)	**235,324**	—	**2,220,038**
Income (loss) before income taxes	(220,948)	**138,159**	—	**1,303,387**
Net income (loss)	(293,356)	**54,252**	—	**511,811**
Per Depositary Share:				
Net income (loss)	¥ (696.9)	**¥ 134.0**	—	**$ 1.26**
Cash dividends	50.0	**50.0**		**0.47**
AT YEAR-END				
Stockholders' equity	¥1,007,808	**¥1,169,173**	+16.0%	**$11,029,934**
Total assets	4,223,920	**5,045,725**	+19.5	**47,601,179**
Number of employees	138,000	**151,000**		

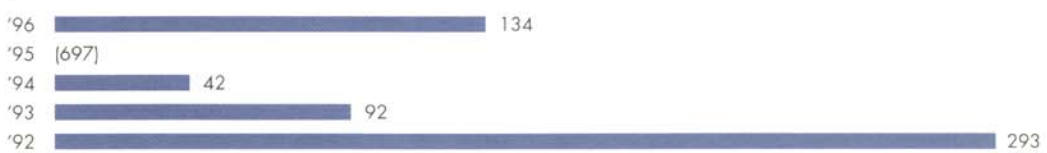
Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 29, 1996.
2. As of March 31, 1996, Sony Corporation had 988 consolidated subsidiaries. It has applied the equity accounting method in respect to its 35 affiliated companies.
3. The consolidated results for the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion in the Pictures Group (refer to Note 4 of Notes to Consolidated Financial Statements) and losses in the Pictures Group of approximately ¥50 billion arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.
4. Sales and operating revenue and operating loss in the consolidated results for the fiscal year ended March 31, 1995 have been reclassified to conform with the presentation for the fiscal year ended March 31, 1996.

Sales and Operating Revenue
(Billion ¥)

Net Income (Loss)
(Billion ¥)



Net Income (Loss) per Depositary Share
(¥)



In 1996, Sony celebrated the 50th anniversary of its founding, taking its arrival at this milestone as an opportunity to make a fresh start under the theme of Re-Generation. Sony is endeavoring to reinvent itself to meet the needs of a new era while upholding the spirit of challenge on which it was founded and continuing to emphasize such qualities as freedom, dynamism, originality, and creativity.

In product development, Sony adopted the concept "Digital Dream Kids," which expresses Sony's desire to utilize digital technologies to create unique, fun products that fulfill the dreams of customers who have grown up in the digital age. Making the most of the seemingly limitless potential of digital technologies, Sony's staff will strive to become bright-eyed Digital Dream Kids themselves, drawing on the many audiovisual technologies that Sony has developed over the years to create new products and new markets for the digital age.

PERFORMANCE

Sony's consolidated sales and operating revenue (herein referred to as "sales") for the fiscal year ended March 31, 1996, advanced 15.1% from the previous fiscal year, to reach an all-time high of ¥4,593 billion ($43,326 million). This reflected healthy sales increases in both the Electronics Business and the Entertainment Business as well as significant expansion in Sony's Insurance and Financing, which was reported separately for the first time in the year under review. Consolidated operating income amounted to ¥235 billion ($2,220 million), consolidated income before income taxes came to ¥138 billion ($1,303 million), and consolidated net income was ¥54 billion ($512 million). During the previous fiscal year, due to the write-off of goodwill and additional losses in the Pictures Group, substantial figures were recorded for consolidated operating loss, consolidated loss before income taxes, and consolidated net loss. Thereafter, measures were introduced to restructure and revitalize the Pictures Group, and the business performance of the group has stabilized.

Looking at performance by Geographic Area, Sony achieved sales growth in Japan, the United States, Europe, and Other Areas. In Japan, sales rose significantly thanks to an overall increase in sales of electronic products as well as to the success of the PlayStation home video game system and the expansion of Sony's life insurance business. In the United States, sales of computer-related equipment grew, while in Europe overall sales of electronic products advanced and the Entertainment Business showed healthy performance. Moreover, the PlayStation has been well received following its launch in the United States and Europe during the year under review, with PlayStation sales making an important contribution to overall sales in those areas. In Other Areas, sales advanced steadily, led by expansion in Asia.

Nobuyuki Idei
President and Chief Operating Officer

Norio Ohga
Chairman and Chief Executive Officer

By Business Group, sales in the Electronics Business increased in all Product Groups, comprising Video Equipment, Audio Equipment, Televisions, and Other Products. In particular, sales rose sharply in Other Products, supported by the strong performance of the PlayStation and robust sales of computer-related equipment. In the Entertainment Business, sales in the Music Group advanced, due primarily to the favorable performance in Europe, and sales in the Pictures Group expanded steadily. Revenues in Insurance and Financing registered strong gains, reflecting the expanded business operations of Sony Life Insurance Co., Ltd., a consolidated subsidiary in Japan.

GLOBAL BUSINESS DEVELOPMENT

In the Electronics Business, Sony carries out efficient development of its business worldwide through its regional operation centers in the United States, Europe, and Asia as well as its headquarters in Japan. In recent years, through such activities as the establishment of manufacturing and marketing subsidiaries in Asia and Eastern Europe, Sony has endeavored to cultivate its operations in regions with strong economic growth potential. Moreover, Sony's research and development activities in Japan are complemented by those of the R&D facilities it maintains in the United States, Europe, and Asia. In each region, Sony strives to utilize the superior technological expertise of the region and to take advantage of being close to the market to accurately meet local requirements.

In the Entertainment Business, during the year under review the efforts of the Pictures Group to strengthen its international operations included investing in cable and satellite television channels in Europe, Latin America, Asia, and other parts of the world. The Music Group sought to develop emerging markets through establishing subsidiaries in Eastern Europe, Asia, and Africa while actively working to develop local artists and repertoire worldwide.

NEW CORPORATE STRUCTURE

To further strengthen the "company" structure, introduced in April 1994, and to create a framework to facilitate the promotion of new businesses, Sony revamped its corporate structure in April 1996. Reflecting current market conditions and plans for the development of Sony's business, the company structure was revised by regrouping operations into 10 companies. In addition, to bolster headquarters functions, Sony has established an Executive Board, which will devise corporate strategies from an overall Group standpoint. Moreover, to create a unified marketing structure, the marketing divisions of each company have been consolidated to strengthen the ability of the companies to respond more promptly and flexibly to changing operating conditions.

As part of its efforts to further strengthen its audiovisual operations and to develop information technology (IT) business, Sony has undertaken a fundamental reevaluation of its R&D structure, creating five corporate laboratories to carry out product, basic technology, and software development from medium- and long-term perspectives.

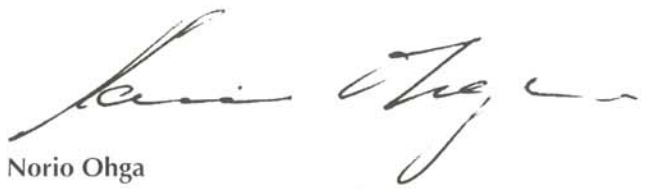
MANAGEMENT INITIATIVES

Amid a rapidly changing operating environment characterized by such shifts as those toward networking and digital technologies, Sony is working to reinvent itself to meet the requirements of a new era under its new theme of Re-Generation. To this end, Sony is implementing the management initiatives outlined below.

In the Electronics Business, Sony is working to strengthen its leading position in audiovisual markets while endeavoring to develop IT business that augments Sony's corporate culture and image. In the Entertainment Business, Sony is seeking to introduce software production technologies that are appropriate for the digital age and striving to fortify its management to further stabilize operations. Sony is endeavoring to bring about a fusion of electronics and entertainment to cultivate new businesses that are expected to expand in line with the rapid development of networking as well as to provide new varieties of hardware and software. Furthermore, to raise its competitiveness and enhance the value of its brand image, Sony is working to maintain its tradition of offering unique products and services, to emphasize further advances in the quality and speed of overall management, and to give high priority to cost control.

Making every effort to fully develop the combined potential of its electronics and entertainment businesses to afford customers new varieties of fun and satisfaction, Sony is aiming to establish itself as a total entertainment company.

May 15, 1996



Norio Ohga
Chairman and Chief Executive Officer

Nobuyuki Idei
President and Chief Operating Officer

RESEARCH AND DEVELOPMENT ACTIVITIES

Since its establishment in 1946, Sony has maintained a firm commitment to R&D in the fast-advancing field of electronics that has yielded a solid lineup of innovative products. Looking ahead to the coming digital age, Sony is focusing its R&D on integrating audiovisual and information technologies to develop a new generation of hardware and software products.

R&D STRUCTURE ■ Sony restructured its R&D operations as part of the overall corporate reorganization on April 1, 1996. To meet the diverse product-related needs of its various businesses, Sony actively carries out R&D at each of its independent companies. Strategic R&D relating to the entire Sony Group, specifically that devoted to developing new key technologies, is delegated to five corporate laboratories—the Research Center, the Product Development Laboratory, the Architecture Laboratory, the Media Processing Laboratory, and the Systems Solutions Laboratory—as well as the D21 Laboratory. These facilities are directly controlled by corporate headquarters.

Pictured is a prototype 25-inch wide-screen PLASMATRON flat panel display.

At the Research Center, the development of electronic materials technologies and basic devices is conducted from a medium-to-long-term standpoint. The Product Development Laboratory focuses on next-generation systems and products that will be crucial to business. The Architecture Laboratory is charged with developing software and hardware architectures for information and networkable products. At the Media Processing Laboratory, system LSI (large-scale integration) and signal processing technologies are developed for an array of hardware. The Systems Solutions Laboratory works on basic technologies related to the Internet and Sony's computer business. Finally, the D21 Laboratory's mission is to pursue long-term R&D themes based on visions of the 21st century.

Sony's policy of globalizing its R&D operations is reflected in its network of R&D facilities in the United States, Europe, and Asia.

OPERATING SYSTEM (OS) AND INTERACTIVE VIDEO COMMUNICATIONS SYSTEM ■ In response to the rapid shift toward networking, Sony has developed a distributed, real-time computer OS. Functions can be quickly and easily added to or deleted from this object-oriented OS according to varying application requirements. Compatible with a wide variety of hardware and software, this OS can be used with many different computer systems, and, due to its microkernel architecture, it can easily be used in such devices as mobile communications terminals and home-use audiovisual equipment.

Sony has also developed an innovative distributed audiovisual network server system that incorporates its new OS. This system utilizes a lightweight server in conjunction with a switch to facilitate the transmission of interactive video images and sound by many users simultaneously. Unlike conventional network video systems, which rely on complex workstations

or mainframes, this new system features a distributed-management architecture that can utilize as many remotely networked servers as are necessary to provide a variety of media services, such as the transmission of images, sound, and other data, to a large number of users. Thus, the system is ideal for such applications as video-on-demand and Internet file serving.

DISPLAYS ■ Sony has developed the PLASMATRON flat panel display based on Plasma Addressed Liquid Crystal technology jointly developed with Tektronix, Inc., of the United States. This display features the high brightness and contrast provided by liquid crystal technology as well as the large-screen capabilities of plasma displays. The PLASMATRON makes it possible to produce home-use wall-hanging TVs in sizes ranging from 20 to 50 inches.

In a joint project with Texas Instruments Incorporated, of the United States, Sony has developed a high-resolution projector incorporating digital micro devices (DMDs). DMDs project images by controlling the angle of tiny, movable mirrors on the surface of a chip. DMD projectors can produce images 5 to 10 times brighter than currently possible with cathode ray tube projectors. As a result, DMD projector images are clear even in well-lit rooms.

This Sony Digital Handycam is connected to an IBM PC installed with a still image capture board that has a digital input/output connector. The Digital Handycam can be operated via the PC, and still images selected from moving images shot with the Digital Handycam can be displayed and edited on the screen.

NETWORK-RELATED TECHNOLOGIES ■ As computer networking trends diffuse into the consumer market, Sony is dedicated to facilitating the fusion of audiovisual and information technologies.

These are examples of Internet home pages created using Cyber Passage, Sony's new communications software that enables 3-D interaction between network users via moving pictures and sound.

Sony actively supports the U.S. Institute of Electrical and Electronic Engineers' IEEE 1394 standard for connecting PCs and digital audiovisual equipment. And, Sony and Microsoft Corporation, of the United States, have agreed to jointly develop interface technologies according to the IEEE 1394 standard, which enable the simple interactive connection for up to 63 devices via a single cable. In autumn 1995, Sony launched a home-use Digital Handycam camcorder that was the world's first audiovisual device to incorporate an IEEE 1394-based digital input/output connector.

Sony and Silicon Graphics Inc., of the United States, jointly proposed "Moving Worlds" as a technical standard for next-generation modeling language specifications for the creation of 3-D environments on the World Wide Web.

Furthermore, Sony is acting as the official organizer as well as a contributor and a public access provider in Japan for the Internet 1996 World Exposition, the first global-scale virtual exposition to be held on the Internet. Viewers are able to access the Sony Pavilion, which was created using Cyber Passage, Sony's new communications software that enables 3-D interaction between network users via moving pictures and sound.

CONCERNED FOR THE ENVIRONMENT

Guided by Sony's Global Environmental Policy, established in March 1993, Sony Group companies worldwide vigorously engage in activities that promote environmental conservation. A top priority for Sony is to attain certification under the International Standard of Environmental Management ISO 14001 by the end of March 1998. Moreover, Sony is implementing its Greenplus Project, which is aimed at stepping up the introduction of various environment-friendly products.

JAPAN ■ In June 1995, Sony Kohda Corporation became the first home electronics manufacturer to attain environmental audit certification by the Japan Audit and Certification Organization. Moreover, Sony's eight manufacturing facilities have all attained certification according to the ISO 14001 DIS (Draft International Standard). Sony itself collects and recycles nickel-cadmium rechargeable batteries through its own distribution network, and Sony's pioneering efforts in this area were recognized with the Chairman's Award from the electronics industry's Recycle Promotion Committee. Also, Sony Corporation and Sumitomo Metal Mining Co., Ltd., jointly created a system for recycling lithium-ion rechargeable batteries. Introduced in April 1996, this is the first system for lithium-ion rechargeable battery collection and recycling to be operated by a battery manufacturer. Furthermore, Sony has developed an integrated system for recycling televisions—from cabinets to the glass of cathode ray tubes—for the Association for Electric Home Appliances.

Site assessment of Sony Mizunami Corporation's wastewater treatment plant

UNITED STATES ■ Sony Electronics Inc. (SEL) participates in various volunteer programs run by the U.S. Environmental Protection Agency (EPA). Under the EPA's 33/50 Program, participating manufacturers worked to reduce the emissions of 17 designated pollutants 50% from 1988 levels by 1995. SEL well exceeded that target, achieving a reduction of 75%. And, under the EPA's Energy Star Buildings Program, which aims to enhance the energy efficiency of offices and manufacturing facilities, SEL achieved a significant reduction in the amount of energy used. SEL also carries out the recycling of Sony-brand products.

EUROPE ■ Sony Computer Peripherals & Components Europe set up Germany's first recycling system for computer displays. In February 1996, Sony-Wega Produktions G.m.b.H. attained certification under the Eco-Management and Audit Scheme of the European Union. Furthermore, Sony is the project manager of EUROENVIRON CARE VISION 2000, a European Research Coordination Action (EUREKA) environmental research project that has become the primary environmental research platform of the electronics industry in Europe.

ASIA ■ Sony's Asian Environmental Conservation Committee set up a working group to develop environmental management systems and assist Group companies with preparing applications for ISO 14001 certification. In October 1995, Sony supported the government-sponsored Global 500 Forum Conference on environmental management held in Malaysia.

Sony has developed a new packaging material—Cellu Mold—that is composed mainly of recycled paper and has shock-absorbing capabilities comparable to those of styrene foam. Cellu Mold came into use as a material for tape-recorder packaging in spring 1996.

INVOLVED IN THE COMMUNITY

As a global corporate citizen, Sony makes wide-ranging contributions to communities all over the world.

PROMOTING EDUCATIONAL ACTIVITIES ■ For almost 40 years, the Sony Foundation of Science Education has been presenting awards to primary and junior high schools in Japan that take new approaches to education. The foundation provides these schools with educational funding, while Sony Corporation donates audiovisual equipment. Overseas, in China Sony continues to run a scholarship program for university students in Beijing that it established in 1994. In addition, Sony provides overall support for the Sony Cup, an electronics design competition for Chinese university students that was set up to promote electronics-related education and discover and foster talented people at universities in China. To commemorate the Centenary of Friendship between Japan and Brazil, Sony da Amazonia Ltda. participates in the ACORDA BRASIL (Wake Up Brazil) education promotion campaign. Under this campaign, the company is donating TVs and VTRs to Brazilian primary and junior high schools over a three-year period, beginning in 1995.

SUPPORTING ARTS AND CULTURE ■ In Japan, the Sony Music Foundation sponsors a variety of musical events, including the Japan Red Cross Blood Center Fund Charity Concert, and promotes the widespread enjoyment of classical music. In the United States, Sony Music Entertainment Inc. (SMEI) supported the establishment of the Rock and Roll Hall of Fame and Museum in Cleveland, Ohio. Also, Sony Pictures Entertainment launched the new Sony Media Center at the University of Southern California School of Cinema-Television, a state-of-the-art audiovisual production and post-production facility equipped with advanced Sony electronic products.

Sony Corporation donated audiovisual equipment to the Mozarteum Sound and Film Museum, which is in the recently restored house where Wolfgang Amadeus Mozart was born, in Salzburg, Austria.

PARTICIPATING IN LOCAL COMMUNITIES ■ At its Research Center in Japan, Sony holds open lectures each year to provide the public with an easy-to-understand introduction to the latest electronics technologies. In April 1995, the Sony Europa Foundation was established as a nonprofit organization to promote pan-European charitable, cultural, welfare, and other activities. During the year under review, the foundation funded organizations that help children who are the victims of war in Europe. Turning to Asia, money, clothes, and food were collected from employees of P.T. Sony Electronics Indonesia to send to the victims of the major earthquake that hit the island of Sumatra in October 1995. Elsewhere, Sony Corporation of Hong Kong Limited makes annual contributions to the activities of local welfare organizations.

Under SMEI's S.O.N.Y. (Some One Needs You) Volunteer Program, employees provide children in care institutions and transitional housing with new clothes and school supplies.

ADVANCING SOCIAL WELFARE AND MEDICINE ■ Sony supports a wide variety of social welfare activities in Japan. During the year under review, Sony assisted with the equipping of workshop facilities for mentally handicapped people and provided support for a camp for disabled Boy Scouts and Girl Scouts from all over Japan. Furthermore, Sony donated digital recording equipment to a Japanese braille library for the purpose of setting up an audiotape collection.

ELECTRONICS

Video Equipment

Video Equipment sales for the fiscal year ended March 31, 1996, rose 5.8%, to ¥731 billion ($6,897 million), representing 15.9% of consolidated sales. In home-use camcorders, sales of 8mm models with a liquid crystal display (LCD) monitor grew steadily and Digital Handycam camcorders, which were launched during the fiscal year, were well received. Home-use video decks enjoyed higher unit sales, particularly in Japan and Asia. In broadcast- and industrial-use video equipment, Digital Betacam VTRs achieved favorable sales growth worldwide.

Sales in Video Equipment (Billion ¥)

Comprises 8mm, VHS, Beta, and DV-format VTRs, laserdisc players, video CD players, broadcast- and industrial-use video equipment, Hi-Vision-related equipment, and videotapes.

Audio Equipment

Audio Equipment sales for the year under review increased 0.8%, to ¥905 billion ($8,542 million), representing 19.7% of consolidated sales. In this category, MiniDisc (MD) system unit sales showed significant growth, particularly in Japan. Sony is working to expand the markets for its extensive MD system lineup, which includes MD Walkman models, MD decks, and compact stereo systems that incorporate MD decks. In car stereos, sales of car CD players expanded steadily and sales of car MD players enjoyed significant growth, centered on the Japanese market.

Sales in Audio Equipment (Billion ¥)

Encompasses MD systems, CD players, headphone stereos, personal component stereos, hi-fi components, digital audio tape (DAT) recorders/players, radio-cassette tape recorders, tape recorders, radios, headphones, car stereos, car navigation systems, professional-use audio equipment, audiotapes, and blank MDs.

Televisions

Sales in Televisions for the fiscal year advanced 12.2%, to ¥795 billion ($7,498 million), representing 17.3% of consolidated sales. In the home-use TV market, unit sales of Trinitron color TVs grew in Europe and Asia and sales of projection TVs increased strongly. Against a backdrop of buoyant computer markets worldwide, Sony achieved substantial growth in sales of its computer displays, which are highly acclaimed for their excellent picture quality and high resolution.

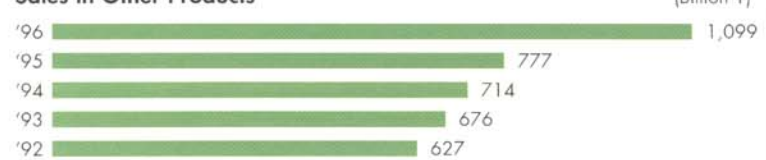
Sales in Televisions (Billion ¥)

Includes color TVs, Hi-Vision TVs, projection TVs, satellite broadcasting reception systems, computer displays, professional-use monitors/projectors, and large color video display systems.

Other Products

Sales in Other Products climbed 41.4% during the fiscal year, to ¥1,099 billion ($10,367 million), representing 24.0% of consolidated sales. There was growth in Sony's semiconductor sales, centered on memory chips for computers, and sales of optical pickups and other electronic components also increased. Sales of such computer peripherals as CD-ROM drives were buoyant, and there were significant gains in cellular phones and lithium-ion batteries. Moreover, sales of hardware and software of Sony's PlayStation home video game system were strong in Japan, the United States, and Europe.

Sales in Other Products (Billion ¥)



Consists of semiconductors, electronic components, cathode ray tubes, data storage systems, computers, telecommunications equipment, home video game system, batteries, and FA systems.

ENTERTAINMENT

Music Group

During the year, Music Group sales increased 3.6%, to ¥513 billion ($4,839 million), representing 11.2% of consolidated sales. Best-selling releases by Mariah Carey, Michael Jackson, Celine Dion, Oasis, Bruce Springsteen, and Michael Bolton, as well as albums by Gloria Estefan, silverchair, and Julio Iglesias and the *Kushelrock 9* compilation, achieved exceptional sales around the world. In Japan, major hit artists included Dreams Come True and TUBE.

Music Group Sales

(Billion ¥)

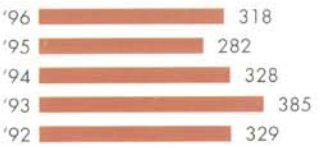
Sony Music Entertainment Inc. comprises Columbia Records Group; Epic Records Group; TriStar Music Group (TriStar Music, Relativity Recordings); Sony Music International; Sony Classical; and associated labels as well as Sony Music Entertainment (Japan) Inc.

Pictures Group

Pictures Group sales for the year advanced 13.0%, to ¥318 billion ($3,003 million), representing 6.9% of consolidated sales. These results reflect strong performances in the United States and international marketplace from such hit films as *Jumanji, Sense and Sensibility, The Net,* and *Bad Boys;* the successful syndication launch of the hit television comedy *Seinfeld;* and the continued strength of Sony Pictures Entertainment's game show and daytime programming.

Pictures Group Sales

(Billion ¥)



Sony Pictures Entertainment includes: the Columbia TriStar Motion Pictures Companies (Columbia Pictures, TriStar Pictures, Sony Pictures Classics, Triumph Films, Sony Pictures Releasing, Columbia TriStar Film Distributors International); Sony Television Entertainment (Columbia TriStar Television, Columbia TriStar Television Distribution, Columbia TriStar International Television); Columbia TriStar Home Video; and Sony Pictures Studios and The Culver Studios. Sony Theatres is a division of Sony Retail Entertainment.

INSURANCE AND FINANCING

Revenues from Sony's Insurance and Financing increased 66.6%, to ¥231 billion ($2,181 million), representing 5.0% of consolidated sales. This strong gain was due primarily to the expanded business operations of Sony Life Insurance Co., Ltd., a consolidated subsidiary in Japan.

Revenues from Insurance and Financing

(Billion ¥)

Primarily comprises the operations of Sony Life Insurance Co., Ltd., and Sony Finance International, Inc.

Video Equipment

ELECTRONICS

HOME-USE CAMCORDERS

8mm Camcorders

Since its introduction in 1985, Sony's Handycam range of 8mm camcorders has been well received worldwide, firmly establishing the practice of shooting personal videos. During the year under review, Sony launched new camcorders with a liquid crystal display (LCD) monitor housed in the side of the unit. These products have been widely praised, particularly for their ease of use. Spring 1996 saw the debut of energy-efficient camcorders that can run continuously for up to four and a half hours using new high-capacity lithium-ion batteries.

Digital Camcorders

In September 1995, Sony launched Digital Handycam camcorders based on the Consumer-Use Digital VCR Specifications (DV format) and mini DV cassettes in Japan, the United States, and Europe. Capable of producing top-quality home video pictures, the Digital Handycam has earned high praise among video journalists.

Digital Video Capture Board

The high-end Digital Handycam can be linked by a single cable to other digital video equipment and PCs for the exchange of signals via its DV input/output connector. In spring 1996, Sony launched a digital video capture board that enables the direct input into a PC of still images selected from moving images shot with a Digital Handycam.

HOME-USE VIDEO DECKS

In the Japanese market, Sony continues to expand its lineup of Double Video models, which feature both 8mm and VHS formats in the same deck. During the year, new models equipped with such functions as split-screen capabilities proved popular among consumers.

In March 1996 at the CeBIT 96 information and telecommunications exhibition in Germany, Sony displayed a home-use digital video deck based

In spring 1996, Sony introduced into its range of Handycam camcorders a model that can film for long periods and features a built-in 4-inch LCD monitor (left) as well as a supercompact model equipped with a 3-inch LCD monitor.

Incorporating three charge-coupled devices (CCDs), this high-end Digital Handycam offers extremely high resolution and excellent color reproduction.

Being much smaller and lighter than analog Betacam camcorders, the Betacam SX digital camcorder is very easy to use.

on the DV format. This model has been successively introduced into European markets since spring 1996.

VIDEO CD PLAYERS

In China and Southeast Asian countries, the markets for video CDs, which are the same size as audio CDs and can store up to 74 minutes of video images, are expanding rapidly. During the year under review, Sony's video CD players with built-in *karaoke* functions were well received in the Asian market.

DVD-VIDEO PLAYERS

Sony regards the market for DVDs, the format of high-density optical discs that will be used to store video and computer data, as having great potential. The picture quality of DVD-Video players will surpass that of current home-use analog visual products. Sony is using its expertise as a developer of CDs and a pioneer in the fields of optical devices and digital signal processing to push ahead with the development of DVD-Video players. Movie titles are expected to be supplied by major motion picture companies, including Sony Pictures Entertainment.

This video deck provides sound and picture reproduction that is in the top level for home-use video decks. The deck can also be connected to a Digital Handycam for digital editing of video pictures shot with the Digital Handycam, with virtually no loss of picture quality.

Pictured is Sony's prototype DVD-Video player. A single layer of one side of a DVD disc can store more than seven times as much data as a conventional CD, equivalent to about 133 minutes of high-quality moving images with stereo dubbing into three languages and subtitles in four languages.

BROADCAST- AND INDUSTRIAL-USE VIDEO EQUIPMENT

Digital Betacam

Sony's Digital Betacam VTRs have made a significant contribution to the digitization of broadcast- and industrial-use video equipment. During the year under review, Sony was presented with an Emmy Award by the U.S. National Academy of Television Arts and Sciences for its pioneering development work in the field of Digital Betacam recording technology.

Betacam SX

In response to rising demand from the broadcasting industry for immediate news program production capabilities, Sony developed the Betacam SX. Thanks to the use of sophisticated digital image compression technologies, the Betacam SX digital hybrid recorder enables fast, efficient nonlinear editing by using built-in disc media. Betacam SX VTRs are also compatible for playback with Betacam SP analog VTRs. Sony's lineup of news acquisition and production systems, including the Betacam SX VTR, was exhibited and highly acclaimed at the U.S. National Association of Broadcasters (NAB) Show—the biggest event of its kind—held in Las Vegas in April 1996. Worldwide shipments of the Betacam SX VTR are scheduled to begin in autumn 1996.

Sony is also focusing on the marketing of new nonlinear broadcasting operation systems that employ high-capacity AV servers. Fuji Television Network Incorporated and other Japanese and overseas broadcast stations have already placed orders for Sony's news acquisition and production systems and program transmission systems.

Industrial-Use Digital Video Production Systems

Sony markets its video equipment to video production houses, corporations, schools, and other organizations as well as to broadcast stations. At the NAB Show in April 1996, Sony drew much attention with its DVCAM format industrial-use digital video production systems. The DVCAM format is compatible with the DV format and achieves more reliable editing capabilities than the DV format.

This portable editing system (left) can be used in conjunction with the Betacam SX digital hybrid recorder, which incorporates both tape and hard disk drives, to facilitate efficient, on-the-spot nonlinear editing.

In March 1996, Sony launched two broadcast- and industrial-use cameras that are compatible with a wide range of broadcasting formats, including Hi-Vision, the Japanese high-definition TV standard.

ELECTRONICS
Audio Equipment

MINIDISC (MD) SYSTEM

The MD system is an audio system that uses a small magneto-optical disc for digital recording and offers the same random-access capability as CDs. During the year under review, Sony enjoyed healthy sales of products in its extensive MD system lineup, which includes MD Walkman models, personal component MD systems, MD decks, compact stereo systems that incorporate MD decks, and car MD players.

In both Japanese and overseas markets, Sony introduced two MD Walkman models with prices significantly lower than those of their predecessors. The year under review also saw the launch of an MD recorder equipped with a built-in microphone and speaker that allows up to 148 minutes of monaural recording. In personal component MD systems, in December 1995 Sony released in Japan an integrated unit comprising an MD deck, a CD player, a tuner, and speakers. The range of MD decks was also expanded and now extends from the reasonably priced small models to high-end units featuring top-quality recording and playback capabilities. As a pioneer in the field of MD systems development, Sony will continue to actively cultivate the markets for these systems.

DISCMAN PORTABLE CD PLAYERS

Since the launch of its first model in 1984, Sony has enjoyed steadily expanding sales worldwide of portable

This portable MD recorder is equipped with a random-access capability as well as a function whereby recording is commenced automatically as soon as a sound is detected.

This Discman can run continuously for up to 40 hours on four AA dry-cell alkaline batteries.

These headphones cut background noise by two-thirds, making them ideal for enjoying music in such noisy places as planes and trains.

In July 1995, Sony introduced into Japan this wireless Walkman, the headphones of which do not need to be connected to the main unit.

CD players. In April 1995, Sony successfully debuted a new model in Japan that incorporates an improved anti-skipping function and is slimmer and lighter than other portable CD players. This model was later introduced into overseas markets. In February 1996, Sony launched a Discman model in Japan that incorporates energy-efficient circuits to offer users much longer continuous playback time than previous models.

WALKMAN HEADPHONE STEREOS

In the headphone stereo business, Sony continued to expand and upgrade its product lineup while maintaining its position as global market leader. In September 1995, Sony launched a Walkman model that, thanks to reduced power consumption, can run continuously for up to 50 hours on a combination of dry-cell alkaline and rechargeable batteries. This model was well received in Japan.

PERSONAL COMPONENT STEREOS

During the year under review, Sony launched a compact component system in Japanese and overseas markets. Featuring units with front panels the size of CD jackets and speakers that incorporate power amplifiers, this new system met with a favorable reception. In September 1995, two models of personal component stereos incorporating MD decks were released in the Japanese market. Also containing CD changers, these models enable simple digital recording from a CD to an MD as well as easy editing.

HEADPHONES

In addition to compact lightweight models for use with its Walkman and Discman products, Sony manufactures a wide range of other headphones,

This CD player and MD deck system combines compact size with sophisticated design and excellent sound quality.

Housed in a rigid chassis and employing shortened signal routing, this CD player and pre-main amplifier unit offers outstanding sound quality.

including high-end models that offer top-notch sound quality and cordless types that enable freedom of movement while listening to music. Sony's efforts to further develop its headphone business include the development of models that employ the Virtualphone technology, which allows users to enjoy speaker quality sound. Such models have been widely praised in Japan and overseas. Between 1979, when compact lightweight Walkman headphones were introduced, and spring 1995, Sony shipments of headphones amounted to 300 million units.

CAR ELECTRONICS

Sony has played a pioneering role in developing the markets for car CD and MD players. In the expanding car MD player market, which centers on Japan, Sony has successfully released MD changers as well as MD players that incorporate CD changer control functions. Sony has also made significant contributions to the development of combination car stereo systems in Japan through its autumn 1995 debut of a combined cassette tape deck and CD player and the introduction of the industry's first combined MD and CD player in spring 1996.

Turning to the Japanese market for car navigation systems, during the year under review Sony launched flash-memory-based, reprogrammable systems that can be combined with external units to enable such additional capabilities as voice recognition.

The first combination car stereo system to comprise MD and CD players, a tuner, and an amplifier, this model also features CD and MD changer control capabilities.

Launched in Japan in December 1995, this navigation system can be operated by batteries for use outdoors or in a car.

ELECTRONICS

Televisions

COLOR TVS

Wide-Screen TVs

In Japan, the summer 1995 commencement of terrestrial Wide Clear Vision broadcasts, which feature high-quality pictures on screens with a 16:9 aspect ratio, prompted renewed demand for wide-screen TVs. Offering a full lineup of wide-screen TVs, ranging from 16-inch to 32-inch units, Sony is actively working to further develop its business in this market. In October 1995, Sony launched in Japan 28-inch and 32-inch models that receive not only conventional TV broadcasts, including Wide Clear Vision, but also Hi-Vision broadcasts through a MUSE (multiple sub-nyquist sampling encoding) decoder. Also, both models can be linked to PCs to act as monitors.

Overseas, Sony is also working to develop TVs for high-quality broadcasting and, in 1995, launched a wide-screen TV in Europe that conforms to the PALplus high-quality terrestrial broadcasting wide-screen format.

Hi-Vision TVs

Hi-Vision test broadcasting is continuing in Japan and full-scale broadcasting is scheduled to begin in 1997. In anticipation of further growth in this market, in October 1995 Sony introduced a home-use Hi-Vision TV with a recently developed built-in MUSE decoder.

TV Manufacturing

In Japan, the United States, Europe, and Asia, Sony has independent, fully integrated manufacturing operations, from design and component procurement through cathode ray tube (CRT) manufacture and the final assembly of TVs and displays. Since 1994, Sony has been working to establish production facilities and distribution systems in emerging markets and to develop products in line with local conditions and needs. The manufacture of color TVs began in Vietnam in 1994 and in India and Indonesia in 1995. Production facilities have also been set up in China and Slovakia, and preparations are being made for the start of operations.

Capable of receiving signals from PCs, this wide-screen TV is linked to a PC from Apple Computer, Inc. The simulated picture is an excerpt from the Internet home page of Sony Pictures Entertainment.
(Internet address—http://www.sony.com/)

The use of small LCD panels makes this 37-inch rear projection TV much more compact and lighter than other current models while facilitating high-resolution, high-brightness picture reproduction.

PROJECTION TVS

Sony is expanding its lineup of home-use projection TVs, focusing on high-resolution, high-brightness models. In the United States, the world's largest market for such products, Sony has introduced 53-inch and 61-inch projection TVs that have been highly acclaimed for the brightness and clarity of the images they reproduce. In the Japanese market, in December 1995 Sony launched the world's first 37-inch rear projection TV to incorporate three polycrystalline silicon thin-film transistor liquid crystal display (LCD) panels.

INTEGRATED RECEIVER/DECODER FOR DIGITAL SATELLITE BROADCASTING

Since spring 1994, DirecTV, Inc., and United States Satellite Broadcasting (USSB) have been providing digital satellite broadcasting services in the United States. In June 1995, Sony launched its integrated receiver/decoder units through which DirecTV and USSB broadcasts can be viewed in the home.

In time for the spring 1996 start of CANALplus digital broadcasting services in Europe and in anticipation of the October 1996 commencement of Perfec TV! services in Japan, Sony will supply integrated receiver/decoder units for each of these services.

COMPUTER DISPLAYS

Accompanying the rapidly increasing information-processing capacity of computers that can be used to show video images, demand for high-performance computer displays has been rising. Sony's computer

This color TV features a flat-surface screen incorporating a Super Trinitron CRT for sharp images and a speaker system that gives superb bass reproduction.

Employing the Cell Production System, which has contributed significantly to raising manufacturing efficiency at Sony plants in Japan, Sony's TV manufacturing facility in Thailand boasts high productivity.

This integrated receiver/decoder for digital satellite broadcasting picks up the signals of DirecTV and USSB in the United States, providing excellent picture and sound reproduction for more than 150 channels.

displays equipped with Trinitron CRTs are well regarded worldwide for their excellent quality and high resolution. Reflecting the buoyancy of computer markets around the world, sales of Sony computer displays rose significantly during the year under review.

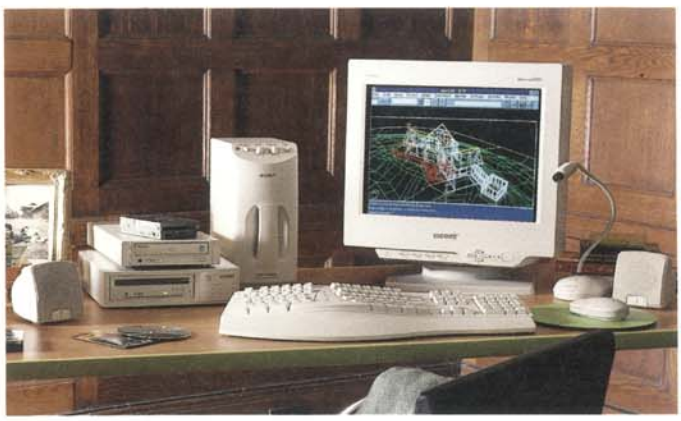
PROFESSIONAL-USE MONITORS AND PROJECTORS

The superb quality and reliability of Sony's professional-use monitors and projectors have resulted in their widespread use in such fields as R&D, education, medicine, and CAD/CAM as well as among broadcast stations and production houses. In August 1995, Sony launched multiscan projectors that can be used for the display of images from a range of signals, including video, Hi-Vision, and those from various computers. These projectors boast higher resolution and brightness than their predecessors.

LARGE COLOR VIDEO DISPLAY SYSTEMS

Sony's Jumbotron large color video display systems are used at such facilities as sports arenas and stadiums, convention centers, and concert halls around the world. In the waterfront urban development area of Tokyo, a Jumbotron system was installed at the Tokyo International Convention Center (Tokyo Big Sight)—the largest multipurpose convention facility in Asia—which opened in spring 1996.

This 20-inch multiscan graphic display, which features a recently developed Trinitron CRT, provides clear, flicker-free picture reproduction.



A Sony high-resolution 17-inch computer display and peripherals (three-piece speaker system, MD DATA drive, CD-ROM drive, CD-R drive, and desktop color video camera)

ELECTRONICS
Other Products

SEMICONDUCTORS

Sony's semiconductor business enjoyed major expansion during the year under review. Against a background of buoyant PC markets worldwide, sales of static random access memory (SRAM) chips and LSIs for CD-ROM drives surged. Widespread business development was also seen in the area of semiconductors for home-use electronic equipment, and sales of LSIs for MiniDisc (MD) systems and video game systems rose, reflecting the expansion of markets for those products.

Applications for liquid crystal displays (LCDs) were widened to include the projector market as well as that of camcorder viewfinders. Also, during the year Sony developed a successful prototype 5.6-inch, full-color LCD using its original low-temperature polycrystalline silicon (Poly-Si) thin-film transistor (TFT) fabrication technology. Low-temperature Poly-Si TFT LCDs provide higher resolution than commonly used amorphous silicon (a-Si) TFT LCDs. Because they can be incorporated with driver circuitry, low-temperature Poly-Si TFT LCDs facilitate miniaturization, and various applications in mobile communications terminals and other multimedia devices are likely.

ELECTRONIC COMPONENTS

Sony manufactures a wide range of highly regarded electronic components, including optical devices, magnetic devices, and motors.

Sony's optical device business has expanded steadily, reflecting growth in markets for optical and magneto-optical data storage systems and MD players. In response to strong demand

[top left]: Pictured is a 1/3-inch, 520,000-dot LCD for data projectors, which enabled the development of the first 832 (H) x 624 (V) dot SVGA display.

[bottom left]: This LSI conforms to the IEEE 1394 high-speed serial bus standard, which facilitates the interactive linking of PCs and digital audiovisual equipment.

[top right]: This 1/3-inch CCD image sensor features 630,000 pixels, the highest level for home-use equipment.

[bottom right]: Pictured is a digital signal processing LSI that incorporates a digital servo for CD-ROM drives.

This prototype 5.6-inch, full-color LCD utilizes Sony's original low-temperature Poly-Si TFT fabrication technology.

Developed using 8mm video head technology, these magnetic heads for the home-use Digital Handycam camcorder feature high output capacity and a long life span.

for optical pickups, Sony established a manufacturing subsidiary in China during the year.

Sony is also working to take advantage of new business opportunities generated by rapid increases in data recording density and transfer speeds. Toward this end, Sony is focusing on the development of state-of-the-art technologies for such products as spindle motors for the latest CD-ROM drives and magnetic heads for digital video and data storage purposes.

COMPUTER-RELATED BUSINESS

Acclaimed for its CD-ROM, floppydisk, and magneto-optical disk systems, Sony is one of the leading suppliers of computer peripherals. In addition to responding to the trend toward high-speed CD-ROM drives, Sony is working on the development of DVD-ROM drives, next-generation storage devices of which much is expected.

Digital video-on-demand systems using Sony's NEWS workstations and PCs have been highly praised by Japanese local government institutions and other users.

TELECOMMUNICATIONS EQUIPMENT

Sony is focusing much attention on digital cellular phones, markets for which are showing significant growth worldwide. In Japan, demand for Sony's sophisticated, easy-to-use jog dial digital cellular phones is surging. In Europe, Sony's digital cellular phones that conform to the Global System for Mobile Communications (GSM) are proving highly popular. In the United States, Sony is working with QUALCOMM Inc. on the joint development, production, and marketing of

CD-ROM drive and related electronic components: spindle motor (right back) and optical pickup (right front)

Sony's electronic components for the latest data storage systems are widely acclaimed for their performance and reliability.

This CDMA digital cellular phone launched in the United States enables higher voice quality transmission than models based on previous formats.

Sony has successfully developed lithium-ion rechargeable battery modules (top) and cells for electric vehicles. These are smaller and lighter and have a higher capacity than lead-acid and nickel-type rechargeable batteries, thereby facilitating longer driving distances between recharges and providing the necessary current surge for starts and driving up steep slopes.

Code Division Multiple Access (CDMA) digital cellular and personal communications services (PCS) phones. The year under review saw the launch of the first generation of CDMA digital cellular phones, ahead of the competition.

PLAYSTATION HOME VIDEO GAME SYSTEM

Following its launch in Japan in December 1994, the 32-bit home video game system PlayStation was introduced into the United States and Europe in September 1995, and sales have been robust in all three markets. In Japan, the many hit software products for PlayStation include the *Ridge Racer* series and *TEKKEN* series from Namco Limited as well as Sony Computer Entertainment, Inc.'s *Arc The Lad*. Overseas, brisk demand for such software titles as *Mortal Kombat III* and *Battle Arena Toshinden* from Sony Interactive Entertainment Inc. has helped boost sales of PlayStation systems.

LITHIUM-ION BATTERIES

The compact size, light weight, and large capacity of lithium-ion batteries make them an ideal power source for such portable equipment as notebook computers and cellular phones. In response to burgeoning demand, Sony as a leading company is expanding its production capacity for lithium-ion batteries.

PlayStation and its major software titles: for the U.S. market (top) and for the Japanese market (bottom)

Japanese and U.S. versions of PlayStation hardware and software are different and not compatible.
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ENTERTAINMENT

Music Group

SONY MUSIC ENTERTAINMENT INC. (SMEI)

SMEI continued its growth as a result of worldwide local artist successes and by maximizing sales of its international releases while aggressively expanding into new territories. Strong sales gains in international markets more than offset a sales decline in the United States that resulted from the weak retail environment.

Global High Notes

Mariah Carey's worldwide success continued to build with *Daydream*, which sold more than 14 million units worldwide during the year under review, while her 1993 and 1994 *Music Box* and *Merry Christmas* albums each sold over a million additional units. Michael Jackson's 2-CD *HIStory* sold more than 10 million units. Celine Dion's *The Colour of My Love* and *D'Eux* albums each sold nearly 5 million units during the year, the former with aggregate sales at 10 million units, and her March 1996 release, *Falling Into You*, has sold over 3.5 million units. Oasis' second album, *What's The Story (Morning Glory)*, sold nearly 7 million units, and Bruce Springsteen's *Greatest Hits* and *The Ghost of Tom Joad* albums surpassed sales of 6 million and 2 million units, respectively. Michael Bolton's *Greatest Hits* album sold 5 million units, and *Alice In Chains*, Gloria Estefan's Grammy Award-winning *Abriendo Puertas*, Julio Iglesias' *La Carretera*, Cyndi Lauper's *12 Deadly Cyns...*, Pink Floyd's *p•u•l•s•e*, and the *Kushelrock 9* compilation each sold 2 million units or more. New releases by Cypress Hill, Ozzy Osbourne, Soul Asylum,

Daydream's second single, "One Sweet Day," debuted and spent 16 weeks at number one, setting a new record and making Mariah Carey the only artist ever to debut two (consecutive) singles at number one.

HIStory debuted at number one with the highest first week sales of any multi-CD set in history and its second single, "You Are Not Alone," was the first single ever to debut at number one.

Celine Dion's *The Colour of My Love* was the best-selling album of 1995 in the United Kingdom and Canada and her *D'Eux* album is the best-selling French-language album of all time, in recognition of which France awarded her its prestigious Medal of Arts.

Xscape, and ZeZe di Camargo & Luciano and the *Bad Boys* and *Forrest Gump* soundtracks each sold 1.5 million units or more. New releases by Cidade Negra and Skank (Brazil); Die Fantastischen Vier (Germany); Claudio Baglioni (Italy); Vicente Fernandez and Ricky Martin (Mexico); Nakarin Kingsak (Thailand); Tears For Fears (United Kingdom); and Tony Bennett, Neil Diamond, Bob Dylan, Kris Kross, Dolly Parton, Collin Raye, Luther Vandross, and Stevie Ray Vaughan (United States) each sold more than 500,000 units.

Artist Development

SMEI's ongoing commitment to artist development was underscored by new production and label ventures with producers and artists such as the members of the multiplatinum-selling group Boyz II Men. SMEI's development efforts were rewarded with three multimillion-selling debut albums—*The Presidents of the United States of America* (3 million), silverchair's *frogstomp* (2.5 million), and Diana King's *Tougher Than Love* (2 million)—and Fugees' second album, *The Score,* which sold nearly 2 million units. Debut releases by 3T, Tina Arena, Jon B., Dionne Farris, and Groove Theory, and second albums by Deep Forest, Sophie B. Hawkins, and Xscape, each sold more than 500,000 units.

Country Music

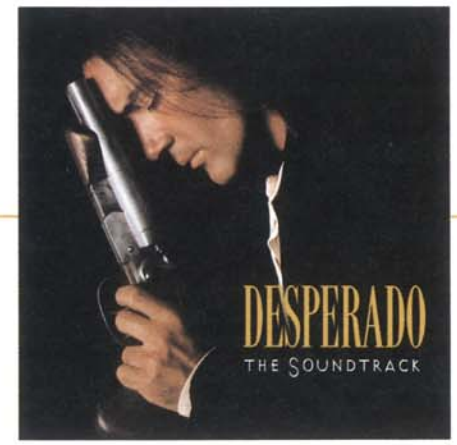
Sony Music Nashville enjoyed best-selling albums by Joe Diffie, Ty Herndon, Patty Loveless, Collin Raye, Rick Trevino, and debut artist Wade Hayes, who was named *Billboard's* 1995 Top New Country Artist of the Year. Patty Loveless received the 1995 Country Music Association Album of the Year Award for *When Fallen Angels Fly*. New artists being developed include Stephanie Bentley, James Bonamy, Marcus Hummon, and Ricochet.

International Growth

Sony Music International (SMI)'s record sales were fueled by the worldwide success of releases by Michael Bolton, Mariah Carey, Celine Dion, Gloria Estefan, Michael Jackson, and Bruce

Bruce Springsteen received his second consecutive Academy Award nomination for his song "Dead Man Walkin'," embarked on his first-ever solo tour, and was the subject of the television documentary *Blood Brothers*.

Patty Loveless was named the Academy of Country Music's Top Female Vocalist of the Year for 1996.



The "Mariachi Suite" from Epic Soundtrax' soundtrack to the Columbia Pictures film *Desperado* won the Grammy Award for Best Pop Instrumental Performance.

Springsteen. Best-sellers by Oasis (United Kingdom), silverchair (Australia), and Roberto Carlos and ZeZe di Camargo & Luciano (Brazil), as well as the *Kushelrock 9* compilation (Germany), confirmed the successful development of local artists & repertoire (A&R) activities.

SMI's expansion into new territories continued with the opening of subsidiaries in the Philippines, Poland, and South Africa. SMI's Asian subsidiaries made significant inroads into local repertoire with releases from The Blue (Korea), Harlem Yu and Meng Ting Wei (Taiwan), and Nakarin Kingsak (Thailand).

Classical Music

The new management team at Sony Classical moved the label in new directions, transferring its international headquarters from Hamburg, Germany, to London to enhance operating efficiencies. New agreements were signed with conductor Esa-Pekka Salonen, cellist Yo-Yo Ma, singers Jane Eaglen and Ying Huang, and composer Richard Danielpour. Sony Classical became the number two classical music company worldwide with such best-selling releases as *Vienna Noel, So Many Stars, Paper Music, Williams on Williams,* and the Academy Award-nominated *Sense and Sensibility* soundtrack, as well as the continued success of the *Immortal Beloved* soundtrack.

Music Publishing

SMEI with Sony Music Entertainment (Japan) Inc. and Michael Jackson established Sony/ATV Music Publishing, a new and significant music publishing company encompassing the current and future music publishing interests of SMEI and Michael Jackson, with the exception of Jackson's own compositions. Copyrights include Beatles songs and a wealth of pop and rhythm & blues standards.

SONY MUSIC ENTERTAINMENT (JAPAN) INC. (SMEJ)

During the year under review, major hit albums in Japan were from such artists as Dreams Come True, TUBE, Mariah Carey, JUDY AND MARY, and Masayuki Suzuki.

Marsalis on Music was honored with a George Foster Peabody Award, the Pulitzer prize of broadcast and cable television.

LOVE UNLIMITED ∞ by Dreams Come True and *Yuzurenai Natsu* by TUBE registered strong sales in Japan.

ENTERTAINMENT Pictures Group

Sony Pictures Entertainment (SPE) continued to build on its leadership as a producer and distributor of entertainment content to the global marketplace during the year under review. SPE gathered momentum in its motion picture, television, and home video core businesses while leveraging its key assets—its filmed entertainment library, global production and distribution network, and digital technology infrastructure—into new business opportunities worldwide.

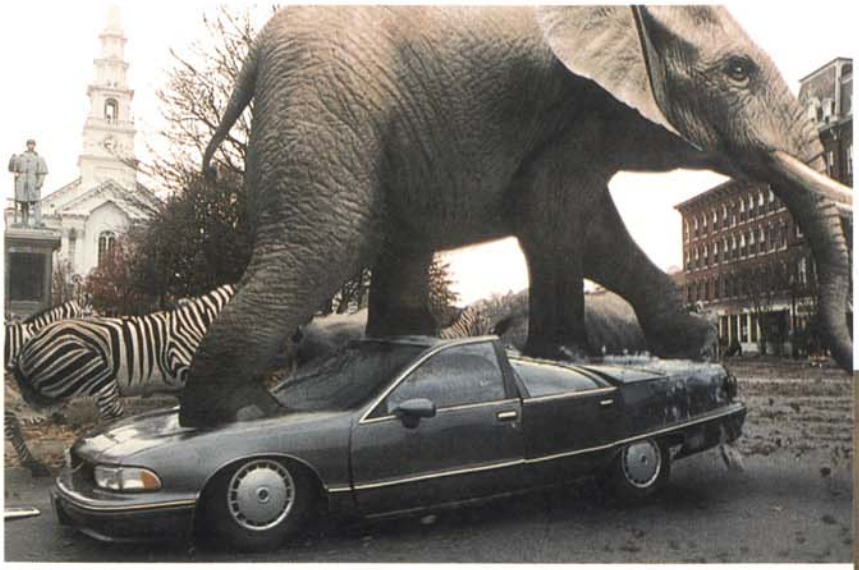
MOTION PICTURES

SPE's motion picture companies increased production, reduced overhead, lowered median film costs, and released a string of low- and medium-budget box office hits.

Columbia Pictures' *Bad Boys, The Net,* and *Desperado* and TriStar Pictures' *Legends of the Fall* were all U.S. hits that scored even stronger box office performances in the fast-growing international arena. SPE's momentum continued through the year-end thanks to the worldwide success of Columbia's *Sense and Sensibility* and TriStar's *Jumanji.* Sony Pictures Classics maintained its status as the world's premier specialized distributor of prestige films with a series of critical triumphs, such as Sundance Film Festival Grand Prize winner *Welcome to the Doll House* and Academy Award winner *Anne Frank Remembered.*

Columbia's *Sense and Sensibility* earned widespread critical acclaim, an Academy Award for writer/actress Emma Thompson, and worldwide box office success.

SPE continued to form promising relationships with the world's top creative talent while reducing its median motion picture production costs to below the major studio industry average. These efforts have resulted in a balanced and diverse portfolio of upcoming summer 1996 films, including Columbia's romantic comedy *Multiplicity* and TriStar's thriller *The Fan.*



TriStar's family Christmas smash *Jumanji,* starring Robin Williams, is looking to become SPE's biggest worldwide hit in nearly five years.

Columbia's *The Net* was a U.S. and international box office hit as well as a top title for CTHV.

TELEVISION

During the year, Sony Television Entertainment (STE) generated 1,763 episodes of 31 programs spanning network prime-time, daytime, game show, and talk show programming. STE launched *Seinfeld,* the top-rated comedy on U.S. television, into syndication on 226 stations around the country and positioned another hit comedy, *Mad About You,* for syndication launch in autumn 1996.

STE maintained its strength in the game show arena, with *Wheel of Fortune* and *Jeopardy!* ranking first and second, respectively, for the ninth consecutive season. Both are scheduled to run through the end of the century. STE is expanding its game show presence with the launch of *The Dating Game/ Newlywed Hour.* STE also maintained its leadership in daytime programming with *The Young & the Restless,* the highest-rated soap opera on all major networks in its 28th season, and *Days of Our Lives,* the number one daytime serial on NBC in its 31st season.

STE leveraged its production and distribution capabilities throughout the world marketplace, launching Sony Entertainment Television brand name networks in Latin America and India, joining in the formation of the Viva 2 music television channel in Germany, and entering into an innovative programming venture in China, the world's single most populous marketplace. STE also continued to draw on the strength of SPE's filmed entertainment library by forging a long-term licensing agreement with Germany's Kirch Group, one of the leading broadcasters in Europe.

HOME VIDEO

Columbia TriStar Home Video (CTHV) maintained its position as one of the worldwide leaders in pre-packaged home entertainment. Its global distribution pipeline has been strengthened by SPE's hit motion pictures and the acquisition of third-party product.

Supported by such SPE film titles as *Legends of the Fall, Little Women, Bad Boys, The Net, Desperado,* and *First Knight,* CTHV once again ranked among the industry leaders in both the

Sony Pictures Classics' *Anne Frank Remembered* enhanced SPE's leadership in prestige films, winning the Oscar for Best Documentary Feature.

Columbia Tristar Television Distribution's *Seinfeld* was sold to 226 U.S. television stations and maintained its position as America's most popular comedy series.

The critically acclaimed Golden Globe-winning dramatic series *Party of Five* was another anchor of STE's diverse array of prime-time network programming.

domestic and the international home video rental markets. CTHV's growing presence in the sell-through market is underscored by the healthy sales of several popular releases, including *The Indian in the Cupboard* and *The Babysitter's Club,* with even greater unit sales anticipated for the May 1996 sell-through release of the blockbuster *Jumanji.*

STUDIO FACILITIES/NEW TECHNOLOGIES

SPE was the first major entertainment company to design its studio facilities to incorporate a full digital infrastructure. SPE now operates one of Hollywood's most advanced digital studios—encompassing Sony Pictures Imageworks, the industry's first in-house visual effects company, as well as the Sony Pictures High Definition Center, Sony's pioneering Sony Dynamic Digital Sound (SDDS) system, and fully digitized motion picture and television production and post-production facilities.

SPE continued to leverage its technological assets during the year. Sony Pictures Imageworks maintained its vanguard position with the formation of a new commercial advertisement production division. Also, new achievements in digital technology accelerated SPE's launch of Sony brand name satellite networks in India and Latin America, pooling Sony's entertainment and electronics resources.

THEATRICAL EXHIBITION

Sony Theatres maintained its position as one of the premier theatrical exhibition circuits in North America. The Sony Theatres Lincoln Square 12-screen theatre and 3-D IMAX™ complex in New York City established itself as the region's flagship theatre in its first full year of operation.

In June 1995, Sony Theatres' partnership with basketball great and entrepreneur Earvin "Magic" Johnson opened its first Magic Johnson Theatres complex in Los Angeles. The chain plans to open additional first-class, first-run theatres to serve inner-city neighborhoods in Atlanta and Houston in late 1996.

The newly christened Kim Novak Theatre is one of two all-digital rerecording stages at SPE's state-of-the-art studio facilities.

STE has entered or launched 13 international television ventures in the past two years, including a Hindi-language channel, thus bringing the Sony brand of quality programming to India.

FOUNDERS

Founder and Chief Advisor
Masaru Ibuka

Founder and Honorary Chairman
Akio Morita

BOARD OF DIRECTORS AND OFFICERS

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Norio Ohga

Vice Chairman and Representative Director
Tsunao Hashimoto

President and Representative Director, Chief Operating Officer
Nobuyuki Idei

Executive Deputy President and Representative Directors
Minoru Morio
Kozo Ohsone
Yoshiyuki Kaneda
Tamotsu Iba

Senior Managing Directors
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Kiyoshi Yamakawa
Junichi Kodera
Jiro Aiko
Kenji Tamiya
Masahiro Takahashi

Managing Directors
Akira Nagano
Sumio Sano
Hideo Nakamura
Suehiro Nakamura
Katsuhito Hayashi

Directors
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Jakob J. Schmuckli
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Masayuki Takano
Seiichi Watanabe
Seiichi Kato
Kenji Hori
Toshiyuki Yamada
Katsuaki Tsurushima
Yasumasa Mizushima
Kenichi Oyama
Koichi Tsunoda
Kunitake Ando
Masahiro Hayashi
Masayoshi Morimoto
Shizuo Takashino
Takeo Eguchi

Kenichi Kamiya
(Advisor of The Sakura Bank, Limited)
Peter G. Peterson
(Chairman of The Blackstone Group)

Standing Statutory Auditors
Akihisa Ohnishi
Yoshisuke Mohri

Statutory Auditors
Eijiro Oki
Kazuaki Morita

(As of March 31, 1996)

ANALYSIS OF OPERATIONS

Sony's **sales and operating revenue** (herein referred to as "sales") during the fiscal year ended March 31, 1996, amounted to ¥4,592.6 billion ($43,326 million), up 15.1% from the previous fiscal year.

The Japanese economy remained generally slow during the year under review. Despite encouraging movement in certain economic indicators in the second half of the fiscal year, genuine recovery did not materialize in such areas as personal consumption and private-sector capital investment. Sony's sales in Japan climbed 24.9% from the previous year, to ¥1,379.8 billion ($13,017 million), due to an overall increase in sales of electronic products as well as to the success of the PlayStation home video game system and the expansion of Sony's life insurance business.

Overseas, the U.S. economy continued to enjoy steady overall growth, despite temporary signs that the rate of growth was slowing somewhat, while the European economies started to falter again. The Asian economies, however, continued to enjoy high growth. In the United States, sales advanced 9.4% from the previous year, to ¥1,259.9 billion ($11,886 million), due primarily to robust sales of computer-related equipment. In Europe, sales increased 16.4%, to ¥1,054.0 billion ($9,943 million), supported by a rise in overall sales of electronic products and a healthy performance in the Entertainment Business. In Other Areas, sales grew 8.6%, to ¥898.8 billion ($8,479 million), led by expansion in Asia.

As the insurance and financing business has become significant, commencing with the fiscal year under review, the business, which was previously included in the Electronics Business, is reported separately.

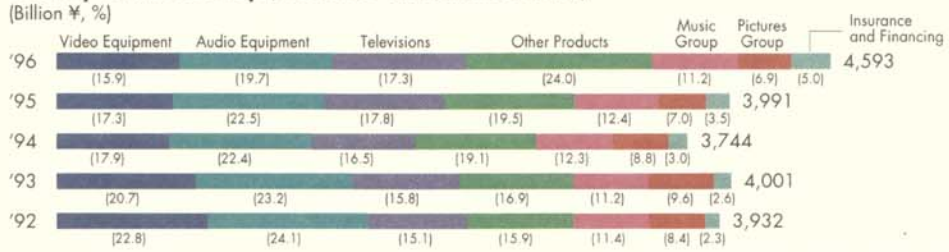
Impact of foreign exchange trends

During the year under review, overseas sales were denominated approximately 63% in U.S. dollars, 8% in deutsche mark, 5% in pounds sterling, and 4% in Hong Kong dollars. In total, approximately 97% of overseas sales were denominated in foreign currencies. In terms of average rate, the yen rose approximately 3% against both the U.S. dollar and the pound sterling, while it fell approximately 6% against the deutsche mark. It is estimated that consolidated sales would have been approximately ¥20 billion ($189 million) higher than the reported figure if the value of the yen had remained the same as in the previous fiscal year.

To minimize the adverse effects of foreign exchange fluctuations on its financial results, Sony promotes the localization of its operations, from R&D to design, materials and parts procurement, and manufacturing. During the year under review, approximately 47% of total manufacturing in Sony's Electronics Business was conducted outside Japan, and the percentage is expected to continue to rise in the future. Foreign exchange forward contracts and foreign currency options are employed to hedge against foreign exchange risks in the export and import transactions

Sales by Business Group (Percent of Consolidated Sales)

(Billion ¥, %)



Sales by Geographic Area (Percent of Consolidated Sales)

(Billion ¥, %)

of Sony Corporation and its overseas consolidated subsidiaries. In addition, currency swap agreements are entered into for certain foreign currency denominated borrowings and debt.

The revenue and expenses of Insurance and financing were reported separately for the first time in the year under review. The revenue and expenses are not included in the figures in the following two paragraphs.

Cost of sales rose 10.3% from the previous year, to ¥3,216.8 billion ($30,347 million), and the ratio of cost of sales to consolidated sales improved 1.9 percentage points, to 73.8%. This improvement reflects higher sales and Companywide efforts to reduce costs. **Research and development expenses** increased 7.6%, to ¥257.3 billion ($2,428 million), but as a percentage of consolidated sales declined 0.3 percentage point, to 5.9%.

Selling, general and administrative expenses increased 8.9% from the previous year, to ¥917.9 billion ($8,659 million). These expenses as a percentage of consolidated sales improved 0.9 percentage point, to 21.0%.

Insurance and financing expenses, which were reported separately, rose 67.6% from the previous year, to ¥222.5 billion ($2,100 million), primarily due to an increase in future insurance policy benefits reflecting the expanded operations of Sony's life insurance business. Insurance and financing expenses as a percentage of Insurance and financing revenue increased 0.6 percentage point, to 96.3%.

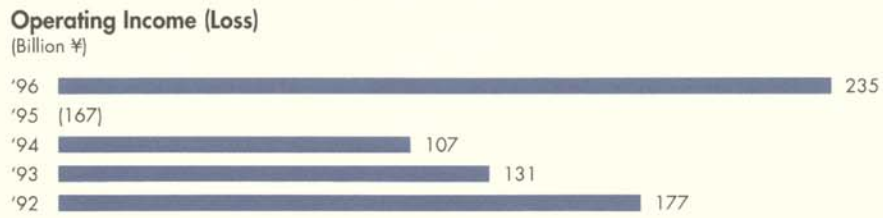
Sony posted **operating income** of ¥235.3 billion ($2,220 million) for the year under review, and the ratio of operating income to consolidated sales was 5.1%. During the previous fiscal year, due to the write-off of goodwill and additional losses in the Pictures Group, Sony posted an operating loss of ¥166.6 billion.

Other income declined 5.5%, to ¥73.3 billion ($692 million), and **other expenses** increased 29.3%, to ¥170.5 billion ($1,608 million), due mainly to a large foreign exchange loss, net, in the year under review as opposed to a foreign exchange gain, net, in the previous year. Foreign exchange gains and losses arise primarily when there is a difference between the value of sales in foreign currencies converted to yen at prevailing exchange rates and the value at settlement of foreign exchange forward contracts used to hedge against exchange rate fluctuations. During the year under review, the exchange rates of the yen at settlement of foreign exchange forward contracts were higher than prevailing exchange rates, resulting in an exchange loss.

Among other income and expenses, the balance of interest and dividend income less interest expenses resulted in net interest payments of ¥49.0 billion ($463 million), a deterioration of ¥6.1 billion from the previous year, due primarily to an increase in total borrowings and debt.

Income before income taxes amounted to ¥138.2 billion ($1,303 million), compared with a loss before income taxes of ¥220.9 billion in the previous year. Income taxes as a percentage of income before income taxes came to 55.8%.

Net income for the year under review was ¥54.3 billion ($512 million), compared with a net loss of ¥293.4 billion in the previous year. The ratio of net income to consolidated sales was 1.2%. Sony registered **net income per**



Depositary Share (each Depositary Share represents one share of Common Stock) of ¥134.0 ($1.26), compared with a net loss per Depositary Share of ¥696.9 in the previous year.

SEGMENT INFORMATION

The following discussion is based on segment information (refer to Note 19 of Notes to Consolidated Financial Statements), which differs from the breakdown of sales described previously (refer to Note 2 of Composition of Sales and Operating Revenue by Geographic Area and Business Group).

By Industry Segment, sales in the Electronics Business rose 15.6% and operating income surged 56.7%, reflecting the increase in sales and Companywide efforts to cut costs and expenses. Operating income as a percentage of sales in the Electronics Business improved from 3.9% to 5.3%.

In the Entertainment Business, sales rose 7.7%. Operating income of ¥54.9 billion ($518 million) was posted, compared with an operating loss of ¥273.3 billion in the previous fiscal year, which was the result of the write-off of goodwill and additional losses in the Pictures Group. Operating income as a percentage of sales in the Entertainment Business amounted to 6.5%. The Pictures Group posted operating income for the year under review thanks to several hit films, successful television syndication in the United States, management efforts to control costs, and lower amortization charges following the previous year's write-off of goodwill. The operating income of the Music Group declined from the previous year due to the weak U.S. retail environment, which was not totally offset by a strong international performance.

In Insurance and financing, revenues soared 61.7% from the previous year and operating income climbed 40.6%. These gains were primarily the result of a strong performance by Sony Life Insurance Co., Ltd.

By Geographic Area, Sony's sales increased significantly in all areas. In Japan, sales advanced 14.6%, mainly as the result of an increase in sales in the Electronics Business, and operating income soared 94.5%. Consequently, operating income as a percentage of sales was 4.8%, a major improvement from 2.9% in the previous year. In the United States, due to a 13.2% increase in overall sales as well as improved profit from Pictures Group operations, operating income was recorded. In the previous fiscal year, a large operating loss was posted due to the write-off of goodwill and additional losses in the Pictures Group. In Europe, while sales climbed 16.0%, operating income rose only 3.5% and operating income as a percentage of sales worsened from 5.9% in the previous year to 5.3%. In Other Areas, sales rose 15.7%, operating income increased 16.5%, and operating income as a percentage of sales improved marginally, to 4.7%.

FINANCIAL POSITION AND LIQUIDITY

At March 31, 1996, **total assets** of Sony Corporation and its consolidated subsidiaries amounted to ¥5,045.7 billion ($47,601 million), an increase of 19.5% from the ¥4,223.9 billion recorded at the previous fiscal year-end. The main factors contributing to this rise included the effect of year-end exchange rates that showed a significant weakening

Stockholders' Equity (Percent of Total Assets)
(Billion ¥, %)

Stockholders' Equity Per Depositary Share
(¥)

of the yen compared with the previous fiscal year-end; an increase in notes and accounts receivable, trade, due mainly to higher sales; expanded inventories, primarily in the United States; and a rise in investments and advances associated with the business expansion of Sony Life Insurance.

During the year under review, Sony Corporation issued ¥300 billion ($2,830 million) in unsecured convertible bonds in Japan. All the proceeds were used for the repayment of short- and long-term borrowings, including commercial paper. Total borrowings and debt increased ¥259.2 billion from the previous year-end due to increases in notes and accounts receivable, trade, and inventories as well as fluctuations in exchange rates.

Stockholders' equity rose ¥161.4 billion, to ¥1,169.2 billion ($11,030 million). The ratio of stockholders' equity to total assets was down, from 23.9% to 23.2%. Based on the number of shares outstanding at March 31, 1996, **stockholders' equity per Depositary Share** increased to ¥3,125.57 ($29.49), compared with ¥2,695.31 at the previous year-end.

CASH FLOWS

In **cash flows from operating activities,** depreciation and amortization edged up 0.1%, to ¥227.3 billion ($2,144 million). This amount includes the amortization of goodwill and intangibles arising from the acquisition of the Sony Music Entertainment group and Sony Pictures Entertainment as well as the amortization of deferred insurance acquisition costs. Net cash provided by operating activities amounted to ¥234.2 billion ($2,209 million), up from ¥181.9 billion in the previous fiscal year, due primarily to the recording of net income following the net loss of the previous year.

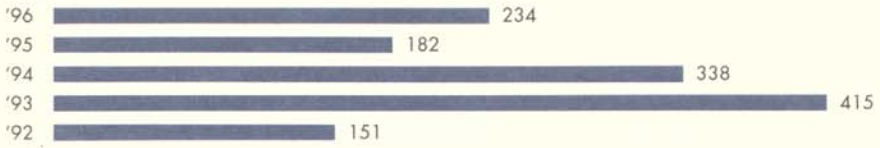
In **cash flows from investing activities,** net cash used in investing activities amounted to ¥371.0 billion ($3,500 million), up from ¥277.9 billion in the previous fiscal year, mainly reflecting increases in payments for investments and advances and for purchases of fixed assets.

In **cash flows from financing activities,** ¥300 billion ($2,830 million) in unsecured convertible bonds was issued in Japan. In addition, medium-term notes were issued in the United States and Europe and in total ¥381.2 billion ($3,597 million) was raised through the issuance of long-term debt. Due to a shift toward long-term debt, there was a considerable decline in short-term borrowings during the year under review. Net cash provided by financing activities was ¥130.5 billion ($1,231 million).

As a result of the above activities, the **net decrease in cash and cash equivalents,** including the effect of exchange rate changes, amounted to ¥16.2 billion ($153 million), and cash and cash equivalents at year-end totaled ¥459.3 billion ($4,333 million).

Capital expenditures during the year under review rose a slight 0.2%, to ¥251.2 billion ($2,370 million). The largest single item of expenditure was approximately ¥43 billion ($406 million) for expanding semiconductor facilities. In the fiscal year ending March 31, 1997, Sony intends to increase its capital expenditures. Overseas, Sony will strengthen its manufacturing structure in all regions through such activities as establishing manufacturing facilities in emerging markets. In Japan, Sony will expand its manufacturing facilities for such products as semiconductors and lithium-ion batteries.

Net Cash Provided by Operating Activities
(Billion ¥)



Capital Expenditures
(Billion ¥)

QUARTERLY FINANCIAL AND STOCK INFORMATION

Sony Corporation and Consolidated Subsidiaries
(Unaudited)
Year ended March 31

	Yen in billions except per share amounts								Dollars in millions except per share amounts
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		4th Quarter
	1995	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	**1996**
Sales and operating revenue	¥867.2	**¥895.5**	¥ 975.0	**¥1,159.5**	¥1,146.5	**¥1,350.6**	¥1,002.0	**¥1,186.9**	**$11,197.0**
Operating income (loss)	33.7	**17.8**	(294.2)	**64.8**	73.1	**117.3**	20.7	**35.4**	**334.0**
Interest income (expense), net	(10.3)	**(9.7)**	(11.7)	**(12.8)**	(11.3)	**(14.9)**	(9.7)	**(11.6)**	**(109.2)**
Foreign exchange gain (loss), net	7.5	**30.0**	6.7	**(32.4)**	2.9	**(21.7)**	5.7	**(1.4)**	**(13.1)**
Income (loss) before income taxes	23.6	**29.4**	(303.5)	**18.6**	59.2	**74.0**	(0.1)	**16.3**	**153.4**
Income taxes	17.7	**20.2**	8.8	**8.4**	31.0	**32.9**	7.7	**15.6**	**147.6**
Net income (loss)	3.9	**7.5**	(313.5)	**8.6**	25.3	**37.1**	(9.1)	**1.0**	**9.7**
Net income (loss) per Depositary Share	¥ 10.7	**¥ 19.3**	¥(749.0)	**¥ 22.0**	¥ 61.8	**¥ 90.3**	¥ (20.3)	**¥ 3.7**	**$ 0.04**
Depreciation and amortization*	¥ 52.4	**¥ 49.1**	¥ 57.6**	**¥ 56.0**	¥ 56.3	**¥ 59.7**	¥ 60.6	**¥ 62.5**	**$ 589.5**
Capital expenditures (additions to fixed assets)	41.8	**62.7**	56.7	**64.5**	50.1	**48.0**	102.1	**76.0**	**717.1**
R&D expenses	52.5	**61.5**	60.7	**65.9**	59.2	**62.1**	66.7	**67.8**	**639.8**
Tokyo Stock Exchange price per share of Common Stock:									
High	¥6,440	**¥4,320**	¥ 6,310	**¥ 5,630**	¥ 6,010	**¥ 6,230**	¥ 5,720	**¥ 7,030**	**$ 66.32**
Low	5,590	**3,730**	5,640	**4,010**	5,000	**4,570**	3,990	**6,040**	**56.98**
New York Stock Exchange price per American Depositary Share:									
High	$61 3/8	**$52 1/2**	$63 1/4	**$58 1/4**	$60 7/8	**$61 1/2**	$56 1/8	**$66 1/4**	
Low	54 1/4	**45 7/8**	57 1/4	**48 3/4**	50 3/8	**45 1/2**	42 1/2	**57 3/8**	

* Including amortization of deferred insurance acquisition costs

** Excluding write-off of goodwill

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 29, 1996.

2. Net income (loss) per Depositary Share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents.

3. During the fiscal year ended March 31, 1996, the Emerging Issue Task Force (EITF) of FASB issued EITF No. 95-2, which the Company has applied in assessing the carrying values of intercompany foreign currency commitments. This did not have a material impact on results of operations for the year ended March 31, 1996.

4. The consolidated results for the second quarter of the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion in the Pictures Group (refer to Note 4 of Notes to Consolidated Financial Statements) and losses in the Pictures Group of approximately ¥50 billion arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.

5. Sales and operating revenue and operating income (loss) reported in the previous year have been reclassified to conform with the presentation for the fiscal year ended March 31, 1996.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions except per share amounts					Dollars in thousands except per share amounts
	1992	1993	1994	1995	**1996**	**1996**
FOR THE YEAR						
Sales and operating revenue	¥3,931,602	¥4,001,270	¥3,744,285	¥3,990,583	**¥4,592,565**	**$43,326,085**
Operating income (loss)	176,904	130,640	106,962	(166,640)	**235,324**	**2,220,038**
Income (loss) before income taxes	216,139	92,561	102,162	(220,948)	**138,159**	**1,303,387**
Income taxes	90,327	49,794	78,612	65,173	**77,158**	**727,906**
Net income (loss)	120,121	36,260	15,298	(293,356)	**54,252**	**511,811**
Per Depositary Share:						
Net income (loss)	¥ 293.1	¥ 92.2	¥ 42.1	¥ (696.9)	**¥ 134.0**	**$ 1.26**
Cash dividends	50.0	50.0	50.0	50.0	**50.0**	**0.47**
Depreciation and amortization*	¥ 265,208	¥ 275,671	¥ 242,458	¥ 226,984**	**¥ 227,316**	**$ 2,144,491**
Capital expenditures (additions to fixed assets)	453,115	251,117	195,937	250,678	**251,197**	**2,369,783**
R&D expenses	240,591	232,150	229,877	239,164	**257,326**	**2,427,604**
AT YEAR-END						
Net working capital	¥ 306,553	¥ 367,009	¥ 616,089	¥ 537,739	**¥ 816,387**	**$ 7,701,764**
Stockholders' equity	1,536,795	1,428,219	1,329,565	1,007,808	**1,169,173**	**11,029,934**
Stockholders' equity per Depositary Share	¥ 4,119.23	¥ 3,827.39	¥ 3,557.57	¥ 2,695.31	**¥ 3,125.57**	**$ 29.49**
Total assets	¥4,911,129	¥4,529,830	¥4,269,885	¥4,223,920	**¥5,045,725**	**$47,601,179**
Average number of shares outstanding during the year (thousands of shares)	417,599	417,687	417,454	417,665	**421,973**	
Number of shares issued at year-end (thousands of shares)	373,078	373,158	373,728	373,911	**374,068**	

* Including amortization of deferred insurance acquisition costs

** Excluding write-off of goodwill

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 29, 1996.

2. Net income (loss) per Depositary Share is computed based on the average number of common shares outstanding during each period after consideration of the dilutive effect of common stock equivalents.

3. During the fiscal year ended March 31, 1996, the Emerging Issue Task Force (EITF) of FASB issued EITF No. 95-2, which the Company has applied in assessing the carrying values of intercompany foreign currency commitments. This did not have a material impact on results of operations for the year ended March 31, 1996.

4. The consolidated results for the fiscal year ended March 31, 1995 reflect the write-off of goodwill of ¥265 billion in the Pictures Group (refer to Note 4 of Notes to Consolidated Financial Statements) and losses in the Pictures Group of approximately ¥50 billion arising from a combination of unusual items, such as abandoning a large number of projects in development and providing for settlement of outstanding lawsuits and contract claims.

5. Sales and operating revenue and operating income (loss) reported in previous years have been reclassified to conform with the presentation for the fiscal year ended March 31, 1996.

6. In November 1991, Sony Music Entertainment (Japan) Inc., a consolidated subsidiary, issued shares of common stock in a public offering to third parties at a price which was in excess of the Company's average per share carrying value. The issuance was regarded as a sale of a part of the Company's interest in the subsidiary and resulted in a ¥61,544 million gain on subsidiary sale of stock. No taxes were provided for on the gain as the Company does not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies.

COMPOSITION OF SALES AND OPERATING REVENUE BY GEOGRAPHIC AREA AND BUSINESS GROUP

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions					Dollars in thousands
	1992	1993	1994	1995	**1996**	**1996**
SALES AND OPERATING REVENUE BY GEOGRAPHIC AREA						
Japan	¥1,059,375	¥1,035,224	¥1,033,273	¥1,105,152	**¥1,379,804**	**$13,017,019**
	26.9%	25.9%	27.6%	27.7%	**30.0%**	
United States	1,119,174	1,215,954	1,154,454	1,152,081	**1,259,926**	**11,886,094**
	28.5	30.4	30.8	28.9	**27.4**	
Europe	1,080,005	1,039,802	832,751	905,416	**1,054,010**	**9,943,491**
	27.5	26.0	22.3	22.7	**23.0**	
Other Areas	673,048	710,290	723,807	827,934	**898,825**	**8,479,481**
	17.1	17.7	19.3	20.7	**19.6**	
Sales and operating revenue	¥3,931,602	¥4,001,270	¥3,744,285	¥3,990,583	**¥4,592,565**	**$43,326,085**
SALES AND OPERATING REVENUE BY BUSINESS GROUP						
Video Equipment	¥ 896,379	¥ 828,366	¥ 668,537	¥ 691,116	**¥ 731,097**	**$ 6,897,142**
	22.8%	20.7%	17.9%	17.3%	**15.9%**	
Audio Equipment	947,770	928,010	840,723	898,507	**905,441**	**8,541,896**
	24.1	23.2	22.4	22.5	**19.7**	
Televisions	592,616	633,723	617,901	708,574	**794,767**	**7,497,802**
	15.1	15.8	16.5	17.8	**17.3**	
Other Products	627,262	676,059	713,743	777,031	**1,098,849**	**10,366,500**
	15.9	16.9	19.1	19.5	**24.0**	
Total Electronics Business	3,064,027	3,066,158	2,840,904	3,075,228	**3,530,154**	**33,303,340**
	77.9	76.6	75.9	77.1	**76.9**	
Music Group	449,601	446,506	461,752	494,931	**512,908**	**4,838,755**
	11.4	11.2	12.3	12.4	**11.2**	
Pictures Group	329,219	384,534	327,748	281,677	**318,305**	**3,002,877**
	8.4	9.6	8.8	7.0	**6.9**	
Total Entertainment Business	778,820	831,040	789,500	776,608	**831,213**	**7,841,632**
	19.8	20.8	21.1	19.4	**18.1**	
Insurance and Financing	88,755	104,072	113,881	138,747	**231,198**	**2,181,113**
	2.3	2.6	3.0	3.5	**5.0**	
Sales and operating revenue	¥3,931,602	¥4,001,270	¥3,744,285	¥3,990,583	**¥4,592,565**	**$43,326,085**

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 29, 1996.

2. The above sales classification shows sales and operating revenue recognized by geographic location of the buyer and business group and does not include intersegment transactions. Therefore, it is different from business segment information in Note 19 of Notes to Consolidated Financial Statements.

3. Sales and operating revenue reported in previous years have been reclassified to conform with the presentation for the fiscal year ended March 31, 1996.

CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries
March 31

	Yen in millions		Dollars in thousands (Note 3)
	1995	1996	1996
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 6 and 12)	¥ 475,555	¥ 459,339	$ 4,333,387
Time deposits (Note 12)	16,173	32,605	307,594
Marketable securities (Note 9)	66,617	28,420	268,113
Notes and accounts receivable, trade (Notes 8 and 12)	675,111	923,566	8,712,887
Allowance for doubtful accounts and sales returns	(48,185)	(68,763)	(648,708)
Inventories (Note 7)	723,383	856,638	8,081,491
Deferred income taxes (Note 14)	77,883	83,291	785,764
Prepaid expenses and other current assets	160,161	208,891	1,970,670
Total current assets	2,146,698	2,523,987	23,811,198
Noncurrent inventories—film (Note 7)	141,651	186,007	1,754,783
Investments and advances:			
Affiliated companies	39,313	40,470	381,792
Securities investments and other (Note 9)	445,539	640,182	6,039,453
	484,852	680,652	6,421,245
Property, plant and equipment (Notes 10 and 17):			
Land	153,347	164,563	1,552,481
Buildings	638,282	714,419	6,739,802
Machinery and equipment	1,481,053	1,618,612	15,269,924
Construction in progress	65,312	78,078	736,585
	2,337,994	2,575,672	24,298,792
Less—Accumulated depreciation	1,308,693	1,454,913	13,725,594
	1,029,301	1,120,759	10,573,198
Other assets:			
Intangibles (Note 5)	82,555	104,733	988,047
Goodwill (Notes 4 and 5)	121,383	148,729	1,403,104
Deferred insurance acquisition costs (Note 11)	79,716	112,820	1,064,340
Other (Note 14)	137,764	168,038	1,585,264
	421,418	534,320	5,040,755
	¥4,223,920	¥5,045,725	$47,601,179

The accompanying notes are an integral part of these statements.

	Yen in millions		Dollars in thousands (Note 3)
	1995	1996	1996
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 10 and 12)	¥ 408,943	**¥ 292,396**	**$ 2,758,453**
Current portion of long-term debt (Notes 10, 12 and 17)	55,204	**133,863**	**1,262,858**
Notes and accounts payable, trade (Notes 8 and 12)	543,461	**565,044**	**5,330,604**
Accounts payable, other and accrued expenses (Note 13)	342,803	**418,612**	**3,949,170**
Dividends payable	9,539	**9,467**	**89,311**
Accrued income and other taxes	73,686	**74,029**	**698,387**
Other (Note 14)	175,323	**214,189**	**2,020,651**
Total current liabilities	1,608,959	**1,707,600**	**16,109,434**
Long-term liabilities:			
Long-term debt (Notes 10, 12 and 17)	906,486	**1,203,592**	**11,354,641**
Accrued pension and severance costs (Note 13)	109,888	**123,959**	**1,169,425**
Deferred income taxes (Note 14)	125,448	**160,398**	**1,513,189**
Future insurance policy benefits and other (Note 11)	273,093	**447,316**	**4,219,962**
Other	93,098	**126,233**	**1,190,877**
	1,508,013	**2,061,498**	**19,448,094**
Minority interest in consolidated subsidiaries	99,140	**107,454**	**1,013,717**
Stockholders' equity (Note 15):			
Common stock, ¥50 par value—			
Authorized: 1,350,000,000 shares			
Issued: 1995—373,911,490 shares	299,589		
1996—374,067,706 shares		**299,885**	**2,829,104**
Additional paid-in capital	441,241	**441,735**	**4,167,311**
Legal reserve	27,620	**31,380**	**296,038**
Unrealized gain on securities (Note 9)	64,972	**81,333**	**767,292**
Retained earnings	585,553	**617,343**	**5,823,991**
Cumulative translation adjustment	(411,167)	**(302,503)**	**(2,853,802)**
	1,007,808	**1,169,173**	**11,029,934**
Commitments and contingent liabilities (Note 18)			
	¥4,223,920	**¥5,045,725**	**$47,601,179**

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 3)
	1994	1995	1996	1996
Sales and operating revenue:				
Net sales (Note 8)	¥3,609,873	¥3,826,693	**¥4,339,411**	**$40,937,840**
Insurance and financing revenue	113,881	138,747	**231,198**	**2,181,113**
Other operating revenue	20,531	25,143	**21,956**	**207,132**
	3,744,285	3,990,583	**4,592,565**	**43,326,085**
Costs and expenses:				
Cost of sales (Note 16)	2,755,840	2,916,475	**3,216,806**	**30,347,226**
Selling, general and administrative (Note 16)	779,085	842,783	**917,887**	**8,659,311**
Insurance and financing expenses	102,398	132,798	**222,548**	**2,099,510**
Goodwill write-off (Note 4)	—	265,167	—	—
	3,637,323	4,157,223	**4,357,241**	**41,106,047**
Operating income (loss)	106,962	(166,640)	**235,324**	**2,220,038**
Other income:				
Interest and dividends	28,568	22,362	**18,053**	**170,311**
Foreign exchange gain, net	35,435	22,789	—	—
Other	44,368	32,417	**55,253**	**521,255**
	108,371	77,568	**73,306**	**691,566**
Other expenses:				
Interest	64,734	65,354	**67,095**	**632,972**
Foreign exchange loss, net	—	—	**25,580**	**241,321**
Other	48,437	66,522	**77,796**	**733,924**
	113,171	131,876	**170,471**	**1,608,217**
Income (loss) before income taxes	102,162	(220,948)	**138,159**	**1,303,387**
Income taxes (Note 14):				
Current	59,869	84,108	**72,088**	**680,076**
Deferred	18,743	(18,935)	**5,070**	**47,830**
	78,612	65,173	**77,158**	**727,906**
Income (loss) before minority interest	23,550	(286,121)	**61,001**	**575,481**
Minority interest in consolidated subsidiaries	8,252	7,235	**6,749**	**63,670**
Net income (loss)	15,298	(293,356)	**54,252**	**511,811**
Retained earnings:				
Balance, beginning of year	907,454	901,847	**585,553**	**5,524,085**
Common stock issue costs, net of tax	(11)	(8)	**(2)**	**(19)**
Cash dividends	(18,673)	(18,692)	**(18,700)**	**(176,415)**
Transfer to legal reserve	(2,221)	(4,238)	**(3,760)**	**(35,471)**
Balance, end of year	¥ 901,847	¥ 585,553	**¥ 617,343**	**$ 5,823,991**

	Yen			Dollars (Note 3)
Per common share:				
Net income (loss)	¥42.1	¥(696.9)	**¥134.0**	**$1.26**
Cash dividends	50.0	50.0	**50.0**	**0.47**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sony Corporation and Consolidated Subsidiaries
Year ended March 31

	Yen in millions			Dollars in thousands (Note 3)
	1994	1995	**1996**	**1996**
Cash flows from operating activities:				
Net income (loss)	¥ 15,298	¥(293,356)	**¥ 54,252**	**$ 511,811**
Adjustments to reconcile net income (loss) to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred insurance acquisition costs	242,458	226,984	**227,316**	**2,144,491**
Goodwill write-off	—	265,167	**—**	**—**
Accrual for pension and severance costs, less payments	11,566	15,364	**9,604**	**90,604**
Loss on disposal of fixed assets	3,758	17,838	**9,429**	**88,953**
Deferred income taxes	18,743	(18,935)	**5,070**	**47,830**
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(2,849)	(116,093)	**(150,158)**	**(1,416,585)**
(Increase) decrease in inventories	13,019	(86,740)	**(69,157)**	**(652,425)**
Increase in other current assets	(11,151)	(4,385)	**(32,117)**	**(302,990)**
Increase (decrease) in notes and accounts payable	5,804	56,112	**(4,169)**	**(39,330)**
Increase (decrease) in accrued income and other taxes	(18,051)	10,528	**(6,064)**	**(57,208)**
Increase in other current liabilities	29,042	57,309	**54,438**	**513,566**
Increase in future insurance policy benefits and other	54,002	76,100	**174,223**	**1,643,613**
Other	(23,828)	(23,954)	**(38,490)**	**(363,113)**
Net cash provided by operating activities	337,811	181,939	**234,177**	**2,209,217**
Cash flows from investing activities:				
Payments for purchases of fixed assets	(198,132)	(222,861)	**(250,157)**	**(2,359,971)**
Proceeds from sales of fixed assets	8,931	6,637	**22,823**	**215,311**
Payments for investments and advances	(387,876)	(326,684)	**(490,330)**	**(4,625,755)**
Proceeds from sales of investment securities and collections of advances	346,835	273,919	**313,769**	**2,960,085**
Payments for purchases of marketable securities	(64,316)	(115,244)	**(54,964)**	**(518,528)**
Proceeds from sales of marketable securities	55,990	81,432	**101,913**	**961,443**
(Increase) decrease in time deposits	20,840	27,595	**(12,359)**	**(116,594)**
Other	1,398	(2,727)	**(1,694)**	**(15,981)**
Net cash used in investing activities	(216,330)	(277,933)	**(370,999)**	**(3,499,990)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	287,389	29,853	**381,239**	**3,596,594**
Payments of long-term debt	(193,867)	(69,039)	**(87,500)**	**(825,472)**
Increase (decrease) in short-term borrowings	(193,970)	153,515	**(145,527)**	**(1,372,896)**
Dividends paid	(18,641)	(18,681)	**(18,772)**	**(177,094)**
Other	105	(2,595)	**1,037**	**9,783**
Net cash provided by (used in) financing activities	(118,984)	93,053	**130,477**	**1,230,915**
Effect of exchange rate changes on cash and cash equivalents	(7,503)	(5,735)	**(9,871)**	**(93,123)**
Net decrease in cash and cash equivalents	(5,006)	(8,676)	**(16,216)**	**(152,981)**
Cash and cash equivalents at beginning of year	489,237	484,231	**475,555**	**4,486,368**
Cash and cash equivalents at end of year	¥484,231	¥ 475,555	**¥459,339**	**$4,333,387**

The accompanying notes are an integral part of these statements.

1. Nature of operations

The company is engaged in the development, manufacture and sale of various kinds of electronic equipment, instruments and devices. The company's principal manufacturing facilities are located in Japan, the United States, Europe and Asia, and its products are marketed by sales subsidiaries and unaffiliated local distributors throughout the world. The company is also engaged worldwide in the development, production, manufacture and distribution of recorded music, in all commercial formats and musical genres, and image-based software, including film, video, television and new entertainment technologies. Further, the company is engaged in insurance and financing activities. These activities are carried on principally through a Japanese stock life insurance subsidiary and also a Japanese financing subsidiary.

2. Summary of significant accounting policies

The parent company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their domicile. Certain adjustments and reclassifications, including those relating to the tax effects of temporary differences, capitalization of stock purchase warrants, deferral of insurance acquisition costs, the accrual of certain expenses and the accounting for foreign currency translation, have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America (U.S. GAAP). These adjustments were not recorded in the statutory books of account.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies are as follows:

Basis of consolidation and accounting for investments in affiliated companies

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts are eliminated. Investments in 20% to 50% owned companies are stated at cost plus equity in undistributed earnings; consolidated net income (loss) includes the company's equity in current earnings (loss) of such companies, after elimination of unrealized intercompany profits.

On occasion, a subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either a public offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than the company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from change in interest are recorded in income for the year the change in interest transaction occurs.

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for on an equity basis is allocated to identifiable assets based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

During the year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill (see Note 4).

Translation of foreign currencies

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are accumulated as a component of stockholders' equity.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

Revenue recognition

Revenues from electronics sales and music are recognized when products are shipped to customers.

Motion picture revenue is recognized beginning on the date of theatrical exhibition. Revenue from television licensing agreements is recognized when the motion picture or television series first becomes available for telecast. Revenue from home videocassette sales is generally recognized on the date of shipment.

Insurance premiums are reported as earned when due and paid. Benefits and expenses are associated with earned insurance premiums so as to result in the recognition of profits over the life of the contracts. This association is accomplished through a provision for liabilities for future benefits and amortization of acquisition costs.

Cash and cash equivalents
Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Debt and equity securities
Unrealized gains and losses on debt securities and equity securities classified as available-for-sale, whose fair values are readily determinable, are reported in a separate component of stockholders' equity, net of tax. Debt securities that are expected to be held to maturity are reported at amortized cost.

Inventories
Inventories in electronics and music entertainment are valued at cost, not in excess of market, cost being determined on the "average cost" basis except for the cost of finished products carried by certain subsidiary companies which is determined on the "first-in, first-out" basis.

Film costs include production, print, certain advertising costs and allocated overhead. Film costs are amortized in the proportion that revenue for a period relates to management's estimate of ultimate revenues. Unamortized film costs are compared with estimated net realizable value on an individual film basis and write-downs are recorded when indicated. Film costs for motion pictures and television programs that are expected to be amortized against revenues from primary markets are classified as current assets. Primary markets for motion pictures include theatrical, home videocassette and pay television. Primary markets for television programs include network and first-run syndication. All other film costs are classified as noncurrent.

Property, plant and equipment and depreciation
Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the assets according to general class, type of construction and use. Significant renewals and additions are capitalized at cost. Maintenance and repairs and minor renewals and betterments are charged to income as incurred.

Intangibles and goodwill
Intangibles, which mainly consist of artist contracts and music catalogs, are being amortized on a straight-line basis principally over 16 years and 21 years, respectively.

Goodwill recognized in acquisitions accounted for as purchases is being amortized on a straight-line basis principally over a 40-year period.

Deferred insurance acquisition costs
Costs that vary with and are primarily related to acquiring new insurance policies are deferred and are being amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves.

Liability for insurance future policy benefits
Liability for insurance future policy benefits is computed based on actuarial assumptions.

Accounting for the impairment of long-lived assets
In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires that long-lived assets and certain identifiable intangibles held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets or intangibles may not be recoverable. This Statement will be effective for the year beginning April 1, 1996. However, the company anticipates that the effect of adoption will not be material.

Income taxes
The provision for income taxes is computed based on the pretax income (loss) included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Derivative financial instruments
Derivative financial instruments are used in the company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities. Gains and losses on derivative financial instruments qualified as hedges to manage existing financial assets and liabilities are deferred and effectively offset gains and losses arising from the related assets and liabilities. Others used for hedging purposes but not qualifying for hedge accounting under U.S. GAAP are marked to market.

In July 1995, the Emerging Issue Task Force (EITF) of the FASB reached a consensus with regard to EITF Issue No. 95-2, Determination of What Constitutes a Firm Commitment for Foreign Currency Transactions Not Involving a Third Party. EITF No. 95-2 requires companies to mark to market forward

exchange contracts to hedge intercompany foreign currency commitments which do not qualify as firm commitments as defined by such consensus. Accordingly, the company has applied the provisions of EITF No. 95-2 effective as of the second quarter of the year ended March 31, 1996. Previously, gains or losses on those forward exchange contracts to hedge intercompany foreign currency commitments have been deferred in accordance with FAS 52 and EITF No. 91-1. The application of the provisions of EITF No. 95-2 did not have a material impact on the results of operations for the year ended March 31, 1996.

Net income (loss) per common share

Net income (loss) per common share is computed based on the average number of shares of common stock outstanding during each period after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds. Net income (loss) per common share is appropriately adjusted for any free distributions of common stock.

Distribution of common stock

On occasion, the company may make a free distribution of common stock which is accounted for either by a transfer of the applicable par value from the additional paid-in capital to the common stock account or with no entry if free shares are distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account. Under the Japanese Commercial Code, a stock dividend can be effected by an appropriation of retained earnings to the common stock account by resolution of the general stockholders' meeting and the free share distribution with respect to the amount as appropriated by resolution of the Board of Directors' Meeting.

Common stock issue costs

Common stock issue costs are directly charged to retained earnings, net of tax, in the accompanying consolidated financial statements as the Japanese Commercial Code prohibits charging such stock issue costs to capital accounts which is the prevailing practice in the United States of America.

Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the years ended March 31, 1994 and 1995 have been made to conform with the presentation in the year ended March 31, 1996.

3. U.S. dollar amounts

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥106=U.S.$1, the approximate current rate at March 29, 1996, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Investments in acquired businesses including goodwill

During the second quarter of the year ended March 31, 1995, the company changed its method of accounting for assessing the carrying value of its investments in acquired businesses including goodwill. Previously, the company assessed the carrying value of its investments in acquired businesses including goodwill on the basis of projections of undiscounted future operating cash flows plus an amount for an anticipated residual value.

The effect of this accounting change was to reduce the goodwill of the Entertainment segment associated with the Pictures Group by ¥265,167 million. This new accounting methodology was also applied to unrelated acquisitions and it was determined that the book value of these investments was recoverable from future operating cash flows of those businesses over the forecast period. Accordingly, no additional write-offs were necessary.

Since its acquisition in November 1989, there had been slower than expected growth of the businesses of the Pictures Group, higher than expected levels of operating costs and expenses and higher than anticipated capital investment requirements. The deterioration experienced in the year ended March 31, 1994 gave rise to a thorough internal review. Similar results experienced in the first half of the year ended March 31, 1995, together with the resignation of the Pictures Group top management, caused the company to conclude that additional funding would be needed to attain acceptable levels of profitability. In light of the level of investments and likelihood of additional funding requirements, the company determined in the second quarter of the year ended March 31, 1995 that a discounted cash flows method provided a preferable measurement of the recoverability of its investments in acquired businesses because this method recognizes the effect of the cost of capital. The discounted future results of the Pictures Group, based on the company's forecasts, were not sufficient to justify the carrying value as of the end of the second quarter of the year ended March 31, 1995.

In formulating the financial forecasts, the company considered historical performance and the medium-term plans as well as the longer-term economic outlook. These forecasts took into consideration market conditions during the second quarter of the year ended March 31, 1995 as well as foreseeable opportunities for future growth in existing lines of business. Although the company believed it could fund the Pictures Group over the entire forecast period, it had not determined whether additional investments would be made in areas other than the existing lines of business.

The operating cash flows were based upon the short-term plans in effect in the second quarter of the year ended March 31, 1995 that called for a substantial improvement in earnings through recovered market share and cost reductions. For the longer term, it was assumed that the low levels of inflation then existing would continue and that the industry would grow at a slightly better rate than the economy as a whole. At the end of the forecast period a residual was included based on an appropriate multiple of the final year's results.

The company believes that the forecast results, based on the historical financial trends and market conditions during the second quarter of the year ended March 31, 1995, were the best estimate of the company's future performance.

In arriving at the discounted net present value, the company used a discount rate of 9% reflecting its weighted average cost of funds, including a factor for equity allocated to the Pictures Group, commensurate with the risk associated with that business as indicated by reference to comparable industry statistics.

Over the entire forecast period, after giving effect to significant additional investment required to complete the investment program contemplated during the second quarter of the year ended March 31, 1995, the company forecast total operating cash flows of $46,813,191 thousand. Based on such forecasts, the cumulative results of the Pictures Group's operating cash flows on a discounted net present value basis of $3,471,966 thousand as of September 30, 1994 were insufficient to recover a significant portion of the investment. The amount of the resultant shortfall reduced the goodwill balance arising from the Pictures Group to $957,270 thousand as of September 30, 1994.

The changes in the company's goodwill during the years ended March 31, 1995 and 1996, are summarized as follows:

	Yen in millions	Dollars in thousands
Balance at March 31, 1994	¥424,482	$4,004,547
Amortization of goodwill	(8,037)	(75,821)
Goodwill write-off	(265,167)	(2,501,575)
Translation adjustment and other	(29,895)	(282,028)
Balance at March 31, 1995	121,383	1,145,123
Amortization of goodwill	(5,145)	(48,538)
Translation adjustment and other	32,491	306,519
Balance at March 31, 1996	¥148,729	$1,403,104

5. Accumulated amortization of intangibles and goodwill

Accumulated amortization of intangibles and goodwill, excluding the goodwill write-off described in Note 4, amounted to ¥117,149 million and ¥151,131 million ($1,425,764 thousand) at March 31, 1995 and 1996, respectively.

6. Cash flow information

Cash payments during the year

Cash payments for income taxes were ¥77,535 million, ¥80,499 million and ¥88,565 million ($835,519 thousand) for the years ended March 31, 1994, 1995 and 1996, respectively; in these respective years, interest payments were ¥67,828 million, ¥70,464 million and ¥69,882 million ($659,264 thousand).

Noncash investing and financing activities

Capital lease obligations of ¥1,971 million, ¥6,557 million and ¥9,563 million ($90,217 thousand) were incurred during the years ended March 31, 1994, 1995 and 1996, respectively.

Conversions of convertible debt into common stock and additional paid-in capital were ¥2,435 million, ¥791 million and ¥680 million ($6,415 thousand) for the years ended March 31, 1994, 1995 and 1996, respectively.

7. Inventories

Inventories comprise the following:

	Yen in millions		Dollars in thousands
	March 31		
	1995	**1996**	**March 31, 1996**
Current:			
Finished products	¥451,575	**¥521,826**	**$4,922,887**
Work in process	109,615	**121,035**	**1,141,840**
Raw materials, purchased components and supplies	112,204	**135,411**	**1,277,462**
Film—released	37,649	**52,761**	**497,745**
—in process	12,340	**25,605**	**241,557**
	¥723,383	**¥856,638**	**$8,081,491**
Noncurrent:			
Film—released	¥ 85,720	**¥115,796**	**$1,092,415**
—in process	55,931	**70,211**	**662,368**
	¥141,651	**¥186,007**	**$1,754,783**

8. Account balances and transactions with affiliated companies

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		Dollars in thousands
	March 31		
	1995	**1996**	**March 31, 1996**
Accounts receivable, trade	¥31,240	**¥25,890**	**$244,245**
Accounts payable, trade	464	**425**	**4,009**

	Yen in millions			Dollars in thousands
	Year ended March 31			
	1994	1995	**1996**	**Year ended March 31, 1996**
Sales	¥209,525	¥226,237	**¥123,623**	**$1,166,255**
Purchases	1,853	3,338	**2,647**	**24,972**

9. Marketable securities and securities investments

Marketable securities and securities investments and other include debt and equity securities of which the aggregate fair value, gross unrealized gains and losses and cost pertaining to available-for-sale securities are as follows:

	Yen in millions							
	March 31, 1995				**March 31, 1996**			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:								
Debt securities	¥241,430	¥ 4,995	¥1,365	¥245,060	**¥341,554**	**¥ 11,592**	**¥2,149**	**¥350,997**
Equity securities	65,097	130,765	906	194,956	**49,842**	**158,279**	**1,006**	**207,115**
Total	¥306,527	¥135,760	¥2,271	¥440,016	**¥391,396**	**¥169,871**	**¥3,155**	**¥558,112**

	Dollars in thousands			
	March 31, 1996			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Debt securities	**$3,222,208**	**$ 109,359**	**$20,274**	**$3,311,293**
Equity securities	**470,207**	**1,493,198**	**9,490**	**1,953,915**
Total	**$3,692,415**	**$1,602,557**	**$29,764**	**$5,265,208**

At March 31, 1996, debt securities mainly consist of Japanese government and municipal bonds and corporate debt securities due within 1 to 15 years.

During the years ended March 31, 1995 and 1996, the net unrealized gains on available-for-sale securities included in the separate component of stockholders' equity, net of applicable taxes, decreased by ¥8,028 million and increased by ¥16,361 million ($154,349 thousand), respectively.

Proceeds from sales of available-for-sale securities on a specifically identified average cost basis were ¥315,619 million, ¥299,727 million and ¥397,774 million ($3,752,585 thousand) for the years ended March 31, 1994, 1995 and 1996, respectively. On those sales, gross realized gains were ¥6,326 million, ¥3,440 million and ¥14,605 million ($137,783 thousand) and gross realized losses were ¥278 million, ¥1,863 million and ¥7,734 million ($72,962 thousand), respectively.

The net change in unrealized gain or loss on trading securities that has been included in earnings during the years ended March 31, 1994, 1995 and 1996 was insignificant.

In the ordinary course of business, the company maintains long-term investment securities, included in securities investments and other, issued by a number of nonpublic companies. The aggregate carrying amounts of the investments in nonpublic companies were ¥12,653 million, ¥21,659 million and ¥20,554 million ($193,906 thousand) at March 31, 1994, 1995 and 1996, respectively. The corresponding fair values at those dates were not computed as such estimation was not readily determinable.

10. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1996 comprise the following:

	Yen in millions	Dollars in thousands
Loans, principally from banks, with interest ranging from 0.67% to 11.50% per annum	¥142,310	$1,342,547
Commercial paper with interest ranging from 5.18% to 5.50% per annum	150,086	1,415,906
	¥292,396	$2,758,453

Long-term debt at March 31, 1996 comprises the following:

	Yen in millions	Dollars in thousands
Unsecured loans, representing obligations principally to banks, due 1996 to 2012 with interest ranging from 0.76% to 10.13% per annum	¥ 189,777	$ 1,790,349
Secured loans, representing obligations principally to insurance companies and banks, due 1996 to 2000 with interest ranging from 9.2% to 19.0% per annum	3,350	31,603
Medium-term notes of consolidated subsidiaries due 1996 to 2006 with interest ranging from 3.23% to 8.04% per annum	234,014	2,207,679
Unsecured 6.0% convertible debentures due 1997, convertible currently at ¥3,200.2 ($12.49 calculated at ¥256.30=$1) for one common share, redeemable before due date	12	113
Unsecured 2.0% convertible bonds due 2000, convertible currently at ¥4,159.9 ($39.24) for one common share, redeemable before due date	418	3,943
Unsecured 0.15% convertible bonds due 2001, convertible currently at ¥6,519 ($61.50) for one common share, redeemable before due date	300,000	2,830,189
Unsecured 1.5% convertible bonds due 2002, convertible currently at ¥4,387.9 ($41.40) for one common share, redeemable before due date	1,603	15,123
Unsecured 1.4% convertible bonds due 2003, convertible currently at ¥5,415.5 ($51.09) for one common share, redeemable before due date	31,740	299,434
Unsecured 1.4% convertible bonds due 2005, convertible currently at ¥7,990.9 ($75.39) for one common share, redeemable before due date	298,595	2,816,934
Unsecured 0.125% convertible bonds of a consolidated subsidiary, due 1998, convertible currently at ¥1,815 ($17.12) for one common share	331	3,123
Unsecured 0.1% bonds, due 1999 with detachable warrants	1,000	9,434
Unsecured 6.875% bonds due 2000	50,315	474,670
Unsecured 4.4% bonds due 2001	80,000	754,717
Unsecured 1.95% bonds of a consolidated subsidiary, due 1998	15,000	141,509
Unsecured 2.55% notes of a consolidated subsidiary, due 2000	5,000	47,170
Unsecured 9⅞% senior subordinated notes of a consolidated subsidiary, due 1998	33,823	319,085
Unsecured Nikkei-linked coupon notes of a consolidated subsidiary, due 1997	5,679	53,575
Unsecured 6.0% notes of a consolidated subsidiary, due 1997	10,768	101,585
Unsecured floating rate notes of a consolidated subsidiary, due 1997	12,709	119,896
Unsecured floating rate notes of a consolidated subsidiary, due 1996	16,656	157,132
Unsecured fixed coupon notes linked to the Yen/U.S. dollar rate of a consolidated subsidiary, due 2001	691	6,519
Unsecured 5.7% notes of a consolidated subsidiary, due 1997, redeemable before due date	4,254	40,132
Unsecured 7½% bonds of a consolidated subsidiary, due 1996	1,889	17,821
Secured 5.3% bonds of a consolidated subsidiary, due 1996, redeemable before due date	1,000	9,434
Secured 3.8% bonds of a consolidated subsidiary, due 2001, redeemable before due date	3,000	28,302
Long-term capital lease obligations, 1.15% to 19.00% per annum, due 1996 to 2007	29,569	278,953
Guarantee deposits received	6,262	59,075
	1,337,455	12,617,499
Less—Portion due within one year	133,863	1,262,858
	¥1,203,592	$11,354,641

On September 1, 1995, the company issued ¥1 billion ($9,434 thousand) of 0.1% bonds, with detachable warrants. One warrant entitles the holders to subscribe ¥2 million ($19 thousand) for shares of common stock of the company at ¥5,330 ($50) per share (subject to adjustment in certain circumstances). Upon issuance of the bonds, the company bought all of these warrants and distributed such instruments at fair market value to the directors of the company as a part of their directors' remuneration. At March 31, 1996, 500 warrants were outstanding and will expire on August 31, 1999.

On February 26, 1996, the company issued ¥300 billion ($2,830,189 thousand) of 0.15% convertible bonds due 2001, which may be converted into shares of common stock of the company, at the option of the holder thereof, at any time. The conversion price is subject to adjustment in certain circumstances.

At March 31, 1996, 89,915 thousand shares of common stock would be issued upon conversion or exercise of all convertible debentures and warrants outstanding.

At March 31, 1996, property, plant and equipment with a book value of ¥4,415 million ($41,651 thousand) is mortgaged as security for loans and bonds issued by consolidated subsidiaries.

Aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1997	¥133,863	$1,262,858
1998	189,055	1,783,538
1999	86,252	813,698
2000	83,350	786,321
2001	352,942	3,329,642

The basic agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

11. Insurance-related operations

The company's stock life insurance subsidiary maintains accounting records as noted in Note 2 in accordance with the accounting principles and practices prescribed by the Japanese Ministry of Finance (the "MOF"), which vary in some respects from U.S. GAAP. Those differences are mainly: that insurance acquisition costs are deferred and amortized generally over the premium-paying period of the insurance policies, that future policy benefits calculated locally under the authorization of the MOF are comprehensively adjusted to a net level premium method with certain adjustments of actuarial assumptions and that deferred income taxes are not recognized under local accounting practices. For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with U.S. GAAP.

The amounts of statutory net equity and accumulated deficit as of March 31, 1996 were ¥12,624 million ($119,094 thousand) and ¥9,376 million ($88,453 thousand), respectively. Movements in these respective amounts were negligible compared with the previous year.

Deferred insurance acquisition costs

Insurance acquisition costs to be deferred, such as commission expenses, medical examination and inspection report fees, etc., vary with and are primarily related to acquiring new insurance policies and are amortized mainly over the premium-paying period of the related insurance policies using assumptions consistent with those used in computing policy reserves. Amortization charged to income for the years ended March 31, 1994, 1995 and 1996 amounted to ¥3,332 million, ¥7,148 million and ¥9,694 million ($91,453 thousand), respectively.

Future insurance policy benefits

Liabilities for future policy benefits are established in amounts adequate to meet the estimated future obligations of policies in force. These liabilities are computed by the net level premium method based upon estimates as to future investment yield, mortality and withdrawals. Future policy benefits are computed using interest rates ranging from approximately 3.5% to 6.25%, generally graded down after 10 to 20 years. Mortality, morbidity and withdrawal assumptions for all policies are based on either the life insurance subsidiary's own experience or various actuarial tables. At March 31, 1995 and 1996, future insurance policy benefits amounted to ¥251,599 million and ¥392,119 million ($3,699,236 thousand), respectively.

12. Financial instruments

The company has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. In applying a consistent risk management strategy, the company manages its exposure to market rate movements of its financial assets and liabilities through the use of derivative financial instruments which include currency forward exchange and option contracts and interest rate currency swap agreements designated as hedges. These instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, Deutsche Mark and other currencies of major industrialized countries. Although the company may be exposed to losses in the event of nonperformance by counterparties or interest and currency rate movements, it does not anticipate significant losses due to the nature of its counterparties or the hedging arrangements.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments.

Cash and cash equivalents, time deposits and notes and accounts receivable, trade

In the normal course of business, substantially all cash and cash equivalents, time deposits and notes and accounts receivable, trade, are highly liquid and are carried at amounts which approximate fair value.

Notes and accounts payable, trade

In the normal course of business, substantially all notes and accounts payable, trade, are to be paid currently and their carrying amounts approximate fair value.

Short-term borrowings and long-term debt

The fair values of short-term borrowings and total long-term debt including the current portion were estimated based on the discounted amounts of future cash flows using the company's current incremental borrowing rates for similar liabilities.

Derivative financial instruments

The company enters into various currency forward exchange contracts, interest rate swap and interest rate currency swap agreements and foreign currency purchased and written options as a normal part of its risk management efforts, which include those transactions designed as hedges but that do not qualify for hedge accounting under U.S. GAAP. Gains and losses on those derivative financial instruments qualified for hedge accounting are deferred and effectively offset gains and losses on the underlying hedged assets and liabilities by recognizing them in the same period. Others used for hedging purposes but not qualified for hedge accounting under U.S. GAAP are marked to market. Such off-balance-sheet activities comprise the following:

Foreign exchange forward contracts, the majority of which mature within three months, are used to hedge the risk of changes in foreign currency exchange rates substantially associated with accounts receivable and payable and commitments on future trade transactions denominated in foreign currencies.

The purpose of the company's foreign currency hedging activities is to protect the company from the risk that the eventual Yen net cash inflows resulting from the sale of products to foreign customers will be adversely affected by changes in exchange rates. The contracted amounts outstanding at March 31, 1995 and 1996 were ¥1,287,491 million and ¥843,090 million ($7,953,679 thousand), respectively. The fair values of these contracts were estimated based on the market quotes.

Interest rate swap and interest rate currency swap agreements mature during 1996 to 2003 and the related differentials to be paid or received are recognized in interest expense over the terms of the agreements. Currency swap portions of the interest rate currency swap agreements are marked to market at the end of each period and the foreign exchange gain or loss recognized on the swap offsets the foreign exchange gain or loss recorded on the foreign-denominated debt. These agreements were arranged to lower funding costs, to diversify sources of funding and to limit the company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuations in foreign currency exchange and interest rates. At March 31, 1995 and 1996, the aggregate notional principal amounts of the interest rate swap agreements were ¥155,672 million and ¥155,306 million ($1,465,151 thousand), respectively, and those of the interest rate currency swap agreements were ¥228,524 million and ¥233,685 million ($2,204,575 thousand), respectively. The fair values of such agreements were estimated based on the discounted amounts of net future cash flows.

The company entered into foreign currency option purchased contracts in the notional amounts of ¥84,498 million and ¥106,549 million ($1,005,179 thousand) at March 31, 1995 and 1996, respectively. These contracts, the majority of which expire within three months of the balance sheet dates, are used in conjunction with the forward exchange contracts to hedge foreign currency exposure arising from accounts receivable and commitments on future trade transactions denominated in foreign currencies. The company also entered into foreign currency option written contracts in the notional amounts of ¥105,869 million and ¥164,439 million ($1,551,311 thousand) at March 31, 1995 and 1996, respectively. The majority of these contracts are part of range forward contract arrangements and expire in the same month with the corresponding currency option contracts purchased shown above and are limited to those which lower the premiums paid. The fair values of such foreign currency options were estimated based on the values quoted by brokers.

A consolidated insurance subsidiary entered into government bond option written contracts as an integral part of short-term investing activities in order to fix the yields from bonds on hand to certain ranges. All of these contracts expire within two months of the balance sheet dates and their notional principal amounts were ¥76,693 million and ¥91,485 million ($863,066 thousand) at March 31, 1995 and 1996, respectively. For accounting purposes, those transactions do not qualify for hedge accounting. Accordingly, an unrealized loss of ¥526 million ($4,962 thousand) at March 31, 1996 was charged to income. The fair values of such bond option written contracts were estimated based on the values quoted by brokers.

The estimated fair values of the company's financial instruments excluding debt and equity securities, both on and off the balance sheets, are summarized as follows:

	Yen in millions	
	Carrying amount	Estimated fair value
At March 31, 1995		
Cash and cash equivalents	¥ 475,555	¥ 475,555
Time deposits	16,173	16,173
Notes and accounts receivable, trade	675,111	675,111
Short-term borrowings	(408,943)	(408,943)
Notes and accounts payable, trade	(543,461)	(543,461)
Long-term debt including the current portion	(961,690)	(929,704)
Forward exchange contracts	19,285	48,742
Interest rate and currency swap agreements	—	5,778
Option contracts purchased	652	7,386
Option contracts written	(351)	(677)
Bond option contracts written	(307)	(1,818)
At March 31, 1996		
Cash and cash equivalents	**¥ 459,339**	**¥ 459,339**
Time deposits	**32,605**	**32,605**
Notes and accounts receivable, trade	**923,566**	**923,566**
Short-term borrowings	**(292,396)**	**(292,396)**
Notes and accounts payable, trade	**(565,044)**	**(565,044)**
Long-term debt including the current portion	**(1,337,455)**	**(1,247,781)**
Forward exchange contracts	**(2,226)**	**(4,058)**
Interest rate and currency swap agreements	**—**	**9,740**
Option contracts purchased	**1,577**	**1,577**
Option contracts written	**(1,232)**	**(1,232)**
Bond option contracts written	**(526)**	**(526)**

	Dollars in thousands	
	Carrying amount	Estimated fair value
At March 31, 1996		
Cash and cash equivalents	**$ 4,333,387**	**$ 4,333,387**
Time deposits	**307,594**	**307,594**
Notes and accounts receivable, trade	**8,712,887**	**8,712,887**
Short-term borrowings	**(2,758,453)**	**(2,758,453)**
Notes and accounts payable, trade	**(5,330,604)**	**(5,330,604)**
Long-term debt including the current portion	**(12,617,499)**	**(11,771,519)**
Forward exchange contracts	**(21,000)**	**(38,283)**
Interest rate and currency swap agreements	**—**	**91,887**
Option contracts purchased	**14,877**	**14,877**
Option contracts written	**(11,623)**	**(11,623)**
Bond option contracts written	**(4,962)**	**(4,962)**

13. Pension and severance plans

On terminating employment, employees of the parent company and subsidiaries in Japan are entitled, under most circumstances, to lump-sum indemnities or pension payments as described below, based on current rates of pay and lengths of service. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement, including retirement at the age limit. With respect to directors' resignations, lump-sum severance indemnities calculated by using a similar formula are normally paid subject to approval of the stockholders.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Japanese Welfare Pension Insurance Law. The contributory pension plans cover a portion of the governmental welfare pension program, under which the contributions are made by the companies and their employees, and an additional portion representing the substituted noncontributory pension plans. The defined benefits under the noncontributory portion of the plans, in general, cover 60% of the indemnities under the existing regulations to employees. The remaining portion of the indemnities is covered by severance payments by the companies. The pension benefits are determined based on years of service and the compensation amounts as stipulated in the aforementioned regulations, and are payable, at the option of the retiring employee, as a monthly pension or in a lump-sum amount. The contributions to the plans are funded with several financial institutions in accordance with the applicable laws and regulations.

Most foreign subsidiaries have defined benefit pension plans or severance indemnity plans covering substantially all of their employees under which the cost of benefits is currently funded or accrued. The benefits for these plans are based primarily on current rate of pay and lengths of service.

Net pension and severance costs and the related pension plans' funded status including the employees' contributory portion and rate assumptions are shown below:

Japanese plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31, 1996**
	1994	1995	**1996**	
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥24,212	¥23,987	**¥29,276**	**$276,189**
Interest cost on projected benefit obligation	10,670	11,024	**11,090**	**104,622**
Actual return on plan assets	(5,326)	(3,672)	**(9,545)**	**(90,047)**
Net amortization and deferral	1,183	2,828	**7,245**	**68,349**
Actuarial net pension and severance cost for the year	30,739	34,167	**38,066**	**359,113**
Employee contributions	(3,333)	(3,614)	**(4,098)**	**(38,660)**
Net pension and severance cost for the year	¥27,406	¥30,553	**¥33,968**	**$320,453**

Foreign plans:

	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31, 1996**
	1994	1995	**1996**	
Net pension and severance cost (credit):				
Service cost—benefits earned during the year	¥ 9,882	¥10,198	**¥10,790**	**$101,793**
Interest cost on projected benefit obligation	2,653	2,839	**3,197**	**30,160**
Actual return on plan assets	(2,449)	68	**(4,122)**	**(38,887)**
Net amortization and deferral	890	(1,016)	**1,860**	**17,547**
Net pension and severance cost for the year	¥10,976	¥12,089	**¥11,725**	**$110,613**

Pension plans' funded status:

	Japanese plans			Foreign plans		
	Yen in millions		Dollars in thousands	Yen in millions		Dollars in thousands
	March 31		March 31,	March 31		March 31,
	1995	**1996**	**1996**	1995	**1996**	**1996**
Actuarial present value of obligations—						
Vested benefit	¥167,810	**¥207,925**	**$1,961,557**	¥25,141	**¥38,439**	**$362,632**
Nonvested benefit	37,698	**42,544**	**401,358**	2,504	**3,877**	**36,576**
Accumulated benefit obligation	205,508	**250,469**	**2,362,915**	27,645	**42,316**	**399,208**
Additional benefits related to projected salary increase	53,106	**60,184**	**567,774**	12,780	**18,735**	**176,745**
Projected benefit obligation	258,614	**310,653**	**2,930,689**	40,425	**61,051**	**575,953**
Plan assets at fair value	142,330	**171,240**	**1,615,472**	20,755	**31,280**	**295,094**
Excess of projected benefit obligation over plan assets	116,284	**139,413**	**1,315,217**	19,670	**29,771**	**280,859**
Unrecognized net loss	(14,754)	**(30,722)**	**(289,830)**	(2,117)	**(5,280)**	**(49,811)**
Unrecognized net transition asset	3,854	**3,479**	**32,821**	(144)	**(771)**	**(7,274)**
Unrecognized prior service cost	(11,752)	**(10,766)**	**(101,566)**	—	—	—
Net pension liability recognized in the balance sheet	¥ 93,632	**¥101,404**	**$ 956,642**	¥17,409	**¥23,720**	**$223,774**
Assumptions used in developing the pension obligation as of March 31:						
Discount rate	4.5%	**4.0%**		7.0— 8.5%	**7.0— 9.0%**	
Long-term rate of salary increase	3.5%	**3.2%**		3.0— 8.5%	**3.0— 8.5%**	
Long-term rate of return on funded assets	4.0%	**3.5%**		7.0—10.0%	**7.0—10.0%**	

The plan assets are invested primarily in interest bearing securities and listed equity securities.

14. Income taxes

The company is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 51%.

Reconciliations of the differences between the statutory tax rate and the effective income tax rate are as follows:

	Year ended March 31		
	1994	1995	**1996**
Statutory tax rate	52.0%	(51.0)%	**51.0%**
Increase (reduction) in taxes resulting from:			
Income tax credit	(2.3)	(2.0)	**(2.8)**
Nondeductible goodwill write-off	—	61.2	**—**
Current operating losses of subsidiaries, excluding nondeductible goodwill write-off	25.2	17.6	**7.9**
Other	2.0	3.7	**(0.2)**
Effective income tax rate	76.9%	29.5%	**55.9%**

The significant components of deferred tax assets and liabilities are as follows:

	Yen in millions		Dollars in thousands
	March 31		
	1995	**1996**	**March 31, 1996**
Deferred tax assets:			
Operating loss carryforwards for tax purposes	¥ 50,433	**¥ 58,304**	**$ 550,038**
Inventory—intercompany profits and write-down	37,984	**38,793**	**365,972**
Accrued pension and severance costs	33,269	**37,938**	**357,906**
Warranty reserve and accrued expenses	26,158	**29,998**	**283,000**
Future insurance policy benefits	12,308	**25,717**	**242,613**
Other accrued employees' compensation	11,944	**11,723**	**110,594**
Bad debts reserve	4,617	**7,415**	**69,953**
Depreciation	5,129	**4,322**	**40,773**
Other	53,508	**82,524**	**778,528**
Gross deferred tax assets	235,350	**296,734**	**2,799,377**
Less—Valuation allowance	(90,182)	**(118,356)**	**(1,116,566)**
Total deferred tax assets	145,168	**178,378**	**1,682,811**
Deferred tax liabilities:			
Unrealized gain on securities	(66,784)	**(85,204)**	**(803,811)**
Undistributed earnings of foreign subsidiaries	(27,480)	**(51,995)**	**(490,519)**
Insurance acquisition costs	(36,082)	**(51,064)**	**(481,736)**
Depreciation	(18,963)	**(18,807)**	**(177,425)**
Deferred expenses	(4,507)	**(6,929)**	**(65,368)**
Other	(27,023)	**(26,718)**	**(252,056)**
Gross deferred tax liabilities	(180,839)	**(240,717)**	**(2,270,915)**
Net deferred tax liabilities	¥ (35,671)	**¥ (62,339)**	**$ (588,104)**

The valuation allowance mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the years ended March 31, 1995 and 1996 were both increases of ¥9,264 million and ¥28,174 million ($265,792 thousand), respectively.

Net deferred tax liabilities are included in the consolidated balance sheets as follows:

	Yen in millions		Dollars in thousands
	March 31		
	1995	**1996**	**March 31, 1996**
Deferred income taxes (Current assets)	¥ 77,883	**¥ 83,291**	**$ 785,764**
Other assets—Other	14,538	**18,351**	**173,123**
Current liabilities—Other	(2,644)	**(3,583)**	**(33,802)**
Deferred income taxes (Long-term liabilities)	(125,448)	**(160,398)**	**(1,513,189)**
Net deferred tax liabilities	¥ (35,671)	**¥ (62,339)**	**$ (588,104)**

At March 31, 1996, no deferred income taxes have been provided on undistributed earnings of foreign subsidiaries not expected to be remitted in the foreseeable future totaling ¥233,573 million ($2,203,519 thousand), and on the gain on a subsidiary's sale of stock of ¥61,544 million ($580,604 thousand) arising from the issuance of common stock of Sony Music Entertainment (Japan) Inc. in a public offering to third parties in November 1991, as the company does not anticipate any significant tax consequences on possible future disposition of its remaining investment based on its tax planning strategies. The unrecognized deferred tax liabilities as of March 31, 1996 for such temporary differences amounted to ¥90,930 million ($857,830 thousand).

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 1996 amounted to approximately ¥167,474 million ($1,579,943 thousand) and are available as an offset against future taxable income of such subsidiaries. These carryforwards expire at various dates primarily up to 15 years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

15. Stockholders' equity

Changes in common stock and additional paid-in capital have resulted from the following:

		Yen in millions	
	Number of shares	Common stock	Additional paid-in capital
Balance at March 31, 1993	373,157,856	¥297,985	¥439,619
Conversion of convertible debt	570,467	1,209	1,226
Balance at March 31, 1994	373,728,323	299,194	440,845
Conversion of convertible debt	183,167	395	396
Balance at March 31, 1995	373,911,490	299,589	441,241
Conversion of convertible debt	**156,216**	**296**	**384**
Common stock warrants	—	—	**110**
Balance at March 31, 1996	**374,067,706**	**¥299,885**	**¥441,735**

	Dollars in thousands	
	Common stock	Additional paid-in capital
Balance at March 31, 1995	$2,826,312	$4,162,650
Conversion of convertible debt	**2,792**	**3,623**
Common stock warrants	—	**1,038**
Balance at March 31, 1996	**$2,829,104**	**$4,167,311**

On November 20, 1991, the company made a free share distribution of 33,908,621 shares for which no accounting entry is required in Japan. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥201,078 million ($1,896,962 thousand) would have been transferred from retained earnings to the appropriate capital accounts.

Conversions of convertible debt into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of stated capital. The amounts of statutory retained earnings of the parent company available for the payments of dividends to stockholders as of March 31, 1995 and 1996 were ¥482,735 million and ¥490,265 million ($4,625,142 thousand), respectively. These amounts include cash dividends for the six-month period ended March 31, 1995 and 1996, respectively, which have been incorporated in the accompanying consolidated financial statements.

The appropriations of retained earnings for the year ended March 31, 1996, which have been incorporated in the accompanying consolidated financial statements, will be proposed for approval at the general stockholders' meeting to be held on June 27, 1996 and will be recorded in the statutory books of account, in accordance with the Japanese Commercial Code, after stockholders' approval.

An analysis of the changes in the cumulative translation adjustment is presented below:

	Yen in millions			Dollars in thousands
	Year ended March 31			
	1994	1995	**1996**	**Year ended March 31, 1996**
Balance, beginning of year	¥(238,000)	¥(335,703)	**¥(411,167)**	**$(3,878,934)**
Aggregate translation adjustment for the year	(96,725)	(75,354)	**114,461**	**1,079,821**
Income taxes for the year allocated to translation adjustment	(978)	(110)	**(5,797)**	**(54,689)**
Balance, end of year	¥(335,703)	¥(411,167)	**¥(302,503)**	**$(2,853,802)**

16. Research and development expenses and advertising costs

Research and development expenses

Research and development expenses charged to cost of sales for the years ended March 31, 1994, 1995 and 1996 were ¥229,877 million, ¥239,164 million and ¥257,326 million ($2,427,604 thousand), respectively.

Advertising costs

Advertising costs included in selling, general and administrative expenses for the years ended March 31, 1994, 1995 and 1996 were ¥132,205 million, ¥141,017 million and ¥159,821 million ($1,507,745 thousand), respectively.

17. Leased assets

The company leases certain plant facilities, office space, warehouses, employees' residential facilities and other assets.

An analysis of leased assets under capital leases is as follows:

	Yen in millions		Dollars in thousands
	March 31		
Class of property	1995	**1996**	**March 31, 1996**
Land	¥ 1,744	**¥ 2,351**	**$ 22,179**
Buildings	19,205	**23,080**	**217,736**
Machinery and equipment	4,181	**8,466**	**79,868**
Accumulated amortization	(6,324)	**(9,838)**	**(92,811)**
	¥18,806	**¥24,059**	**$226,972**

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1996:

Year ending March 31	Yen in millions	Dollars in thousands
1997	¥ 4,832	$ 45,585
1998	4,955	46,745
1999	4,666	44,019
2000	4,160	39,245
2001	4,096	38,641
Later years	16,710	157,642
Total minimum lease payments	39,419	371,877
Less—Amount representing interest	9,850	92,924
Present value of net minimum lease payments	29,569	278,953
Less—Current obligations	3,451	32,557
Long-term capital lease obligations	¥26,118	$246,396

Rental expenses under operating leases for the years ended March 31, 1994, 1995 and 1996 were ¥83,536 million, ¥79,295 million and ¥81,385 million ($767,783 thousand), respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 1996 are as follows:

Year ending March 31	Yen in millions	Dollars in thousands
1997	¥ 31,647	$ 298,557
1998	26,674	251,641
1999	22,589	213,104
2000	19,295	182,028
2001	16,637	156,953
Later years	122,759	1,158,104
Total minimum future rentals	¥239,601	$2,260,387

18. Commitments and contingent liabilities

Commitments outstanding at March 31, 1996 for the purchase of property, plant and equipment and other assets approximated ¥42,194 million ($398,057 thousand).

Contingent liabilities for notes discounted and guarantees given in the ordinary course of business and for employee loans amounted to ¥94,507 million ($891,575 thousand) at March 31, 1996.

The company has entered into agreements with financial institutions whereby the company can sell up to ¥53,000 million ($500,000 thousand) of specifically identified accounts receivable and future receivables with limited recourse. For the years ended March 31, 1995 and 1996, the company did not sell any specifically identified accounts receivable or future receivables. For the year ended March 31, 1994, the company sold specifically identified accounts receivable and future receivables of ¥15,141 million. As of March 31, 1995 and 1996, the outstanding balance of all receivables sold with limited recourse amounted to ¥16,554 million and ¥6,678 million ($63,000 thousand), respectively.

The company has also entered into agreements with financial institutions whereby the company can sell up to ¥100,700 million ($950,000 thousand) of undivided interests in a pool of eligible receivables with limited recourse. The maximum pool of eligible receivables sold outstanding at any one time during the years ended March 31, 1995 and 1996 amounted to ¥72,535 million and ¥71,868 million ($678,000 thousand), respectively. As of March 31, 1995, the outstanding balance of all receivables sold with limited recourse amounted to ¥22,250 million. The company had no outstanding balance of such receivables sold with limited recourse as of March 31, 1996.

Under the terms of each of the receivable sales agreements, the company has retained substantially the same risk of credit loss as if the receivables had not been sold. The company has fully reserved for these potential credit losses. The company pays fees which approximate the purchasers' costs of issuing commercial paper and are included in other expense.

The company and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both the company and its legal counsel, management of the company believes that damages from such lawsuits, if any, would not have a material effect on the company's consolidated financial statements.

19. Business segment information

The company operates on a worldwide basis principally within three industry segments: 1) Electronics, 2) Entertainment and 3) Insurance and financing. The Electronics segment designs, develops, manufactures and distributes video equipment, audio equipment, televisions and other products. The Entertainment segment manufactures, markets and distributes music and pictures entertainment products. The Insurance and financing segment represents insurance business, primarily individual life insurance business in the Japanese market, and other financing business, which consists of customer financing and leasing business also in the Japanese market.

Since the company's insurance and financing businesses became significant for financial reporting purposes, the company has established a new reportable segment in the year ended March 31, 1996. The insurance and financing businesses, which were previously included in the former Electronics segment, are now reported as a separate segment. Financial data for previous years have been restated to conform with the segment presentation in the year ended March 31, 1996.

The following tables present certain information regarding

the company's industry segments and operations by geographic areas at March 31, 1994, 1995 and 1996 and for the years then ended:

Industry segments:	Yen in millions			Dollars in thousands
	Year ended March 31			**Year ended March 31, 1996**
	1994	1995	**1996**	
Sales and operating revenue:				
Electronics—				
Customers	¥2,839,411	¥3,075,228	**¥3,530,154**	**$33,303,340**
Intersegment	13,100	12,963	**39,321**	**370,952**
Total	2,852,511	3,088,191	**3,569,475**	**33,674,292**
Entertainment—				
Customers	790,993	776,608	**831,213**	**7,841,632**
Intersegment	3,400	4,959	**10,838**	**102,245**
Total	794,393	781,567	**842,051**	**7,943,877**
Insurance and financing—				
Customers	113,881	138,747	**231,198**	**2,181,113**
Intersegment	14,631	14,106	**16,001**	**150,953**
Total	128,512	152,853	**247,199**	**2,332,066**
Elimination	(31,131)	(32,028)	**(66,160)**	**(624,150)**
Consolidated	¥3,744,285	¥3,990,583	**¥4,592,565**	**$43,326,085**
Operating income (loss):				
Electronics	¥ 86,566	¥ 121,624	**¥190,586**	**$1,797,981**
Entertainment	25,075	(273,270)*	**54,878**	**517,717**
Insurance and financing	11,483	5,949	**8,362**	**78,887**
Corporate and elimination	(16,162)	(20,943)	**(18,502)**	**(174,547)**
Consolidated	¥106,962	¥(166,640)	**¥235,324**	**$2,220,038**
Identifiable assets:				
Electronics	¥2,240,610	¥2,469,688	**¥2,903,430**	**$27,390,849**
Entertainment	1,379,867	1,007,741	**1,271,860**	**11,998,679**
Insurance and financing	458,734	528,277	**748,150**	**7,058,019**
Corporate assets and elimination	190,674	218,214	**122,285**	**1,153,632**
Consolidated	¥4,269,885	¥4,223,920	**¥5,045,725**	**$47,601,179**
Depreciation and amortization:				
Electronics	¥179,660	¥164,914	**¥167,591**	**$1,581,047**
Entertainment	43,234	37,952**	**33,697**	**317,896**
Insurance and financing, including deferred insurance acquisition costs	17,081	20,600	**23,001**	**216,991**
Corporate	2,483	3,518	**3,027**	**28,557**
Consolidated	¥242,458	¥226,984	**¥227,316**	**$2,144,491**
Capital expenditures:				
Electronics	¥143,679	¥175,070	**¥194,417**	**$1,834,122**
Entertainment	34,610	58,898	**41,782**	**394,170**
Insurance and financing	10,845	13,118	**12,844**	**121,170**
Corporate	6,803	3,592	**2,154**	**20,321**
Consolidated	¥195,937	¥250,678	**¥251,197**	**$2,369,783**

* Including write-off of goodwill in the second quarter of the year ended March 31, 1995

** Excluding write-off of goodwill in the second quarter of the year ended March 31, 1995

Geographic areas:	Yen in millions			Dollars in thousands
	Year ended March 31			Year ended March 31,
	1994	1995	**1996**	**1996**
Sales and operating revenue:				
Japan—				
Customers	¥1,379,449	¥1,479,190	**¥1,768,132**	**$16,680,491**
Intersegment	938,640	1,175,446	**1,275,251**	**12,030,670**
Total	2,318,089	2,654,636	**3,043,383**	**28,711,161**
U.S.A.—				
Customers	1,206,585	1,153,550	**1,250,712**	**11,799,170**
Intersegment	49,470	51,637	**113,121**	**1,067,179**
Total	1,256,055	1,205,187	**1,363,833**	**12,866,349**
Europe—				
Customers	712,246	778,465	**886,468**	**8,362,905**
Intersegment	9,665	11,994	**30,299**	**285,840**
Total	721,911	790,459	**916,767**	**8,648,745**
Other—				
Customers	472,988	579,378	**687,253**	**6,483,519**
Intersegment	336,008	454,854	**509,120**	**4,803,019**
Total	808,996	1,034,232	**1,196,373**	**11,286,538**
Elimination	(1,360,766)	(1,693,931)	**(1,927,791)**	**(18,186,708)**
Consolidated	¥3,744,285	¥3,990,583	**¥4,592,565**	**$43,326,085**
Operating income (loss):				
Japan	¥ 61,257	¥ 75,878	**¥147,582**	**$1,392,283**
U.S.A.	(4,361)	(296,417)*	**32,372**	**305,396**
Europe	39,696	46,959	**48,621**	**458,689**
Other	37,466	47,862	**55,772**	**526,151**
Corporate and elimination	(27,096)	(40,922)	**(49,023)**	**(462,481)**
Consolidated	¥106,962	¥(166,640)	**¥235,324**	**$2,220,038**
Identifiable assets:				
Japan	¥2,050,302	¥2,282,291	**¥2,603,041**	**$24,556,991**
U.S.A.	1,303,763	931,884	**1,243,565**	**11,731,745**
Europe	428,228	498,259	**623,069**	**5,878,009**
Other	341,876	395,517	**547,348**	**5,163,660**
Corporate assets and elimination	145,716	115,969	**28,702**	**270,774**
Consolidated	¥4,269,885	¥4,223,920	**¥5,045,725**	**$47,601,179**
Export sales and operating revenue:				
To U.S.A.	¥ 99,380	¥110,645	**¥125,547**	**$1,184,406**
To Europe	72,179	85,589	**110,718**	**1,044,509**
To Other	191,800	193,818	**169,271**	**1,596,896**
Total	¥363,359	¥390,052	**¥405,536**	**$3,825,811**

* Including write-off of goodwill in the second quarter of the year ended March 31, 1995

Transfers between industry or geographic segments are made at arms-length prices. Operating income (loss) is sales and operating revenue less costs and operating expenses. Corporate expenses of the geographic segments include certain research and development expenses unallocable to the segments. Identifiable assets are those assets used in the operations of each industry or geographic segment. Unallocated corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

REPORT OF INDEPENDENT ACCOUNTANTS

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Telephone 03-5424-8100

Price Waterhouse

May 10, 1996

To the Stockholders and Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of Sony Corporation and its consolidated subsidiaries at March 31, 1995 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1996, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 2 and 4 to the consolidated financial statements, the company changed its methods of accounting for assessing the carrying values of its investments in acquired businesses including goodwill and for investments in debt and equity securities in the year ended March 31, 1995.

Price Waterhouse

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If you have any questions or would like a copy of our Form 20-F annual report filed with the U.S. Securities and Exchange Commission or quarterly report to shareholders, please direct your request to:

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Sony Online: http://www.sony.com/
The Home Pages "Sony Drive" and "Sony Online" on the World Wide Web offer a wealth of corporate and product information, including the latest annual report and financial results.

Ordinary General Meeting of Shareholders
The Ordinary General Meeting of Shareholders will be held at the end of June in Tokyo.

Independent Accountants
Price Waterhouse
Tokyo, Japan

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Phone: (03) 5683-5111

Overseas Stock Exchange Listings
New York, Pacific, Chicago, Toronto, London, Paris, Frankfurt, Düsseldorf, Brussels, Antwerp, Vienna, and Swiss stock exchanges

Japanese Stock Exchange Listings
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges

Number of Shareholders
(As of March 31, 1996)
244,096

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Sony Corporation

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